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delmarva power

A PHI Company

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March 29, 2010

VIA HAND DELIVERY

Ms. Alisa C. Bentley, Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

RE: **In the Matter of the Application of Delmarva Power & Light Company for Approval of a Change in Electric Distribution Base Rates and Miscellaneous Tariff Changes**
PSC Docket Nos. 09-414/ 09-276T

Dear Ms. Bentley:

Enclosed for filing please find the original and 10 copies of the following testimony:

1. Public Version of the Supplemental Rebuttal Testimony of Anthony J. Kamerick,

2. **Confidential- Non-Public** Version of the Supplemental Testimony of Anthony J. Kamerick (filed pursuant to Rule 11 of the Commission's Rules of Practice and Procedure) and

3. Rebuttal Testimony of Steven M. Fetter.

This testimony consists of Delmarva's response to the issue of "Ring Fencing," introduced by Staff's Liberty Consulting witnesses in the above referenced Docket.

Pursuant to Rule 11, I hereby attest that the information redacted from the Public Version of the testimony of Mr. Kamerick, and which is included in the Confidential Version of the same testimony, is not subject to inspection by either the public or by other parties. Counsel for parties who have executed the appropriate confidentiality agreement will be provided with the Confidential Version.

As always, should you have any questions please contact me at (302) 429-3786

Respectfully Submitted,

Todd L. Goodman

cc: Service List – Overnight Mail and Email (Public Version Only)

ANTHONY J. KAMERICK

DELMARVA POWER & LIGHT COMPANY
SUPPLEMENTAL REBUTTAL TESTIMONY OF
ANTHONY J. KAMERICK
BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION
CONCERNING AN INCREASE IN ELECTRIC BASE RATES
DOCKET NOS. 09-414/09-276T

INTRODUCTION

1. Q: Please state your name and position.

A: My name is Anthony J. Kamerick. I am the Senior Vice President and Chief Financial Officer of Pepco Holdings, Inc. (PHI) and Delmarva Power & Light Company (Delmarva or Company). A statement of my educational and occupational history is appended to my Direct Testimony in this proceeding.

2. Q: What is the purpose of your rebuttal testimony?

A: In this rebuttal testimony, I will respond to the direct testimony of witnesses Antonuk and Vickroy of Liberty Consulting (Liberty Witnesses) on the issue of "ring fencing." The testimony of Company Witness Steven Fetter also responds to the direct testimony of the Liberty Witnesses. Witnesses Antonuk and Vickroy have recommended that the Delaware Public Service Commission (PSC or the Commission) adopt burdensome and expensive regulatory provisions that would impede the Company's flexibility in managing its finances while raising costs to customers. Through my testimony I will show that:

- The Company has consistently and appropriately managed its finances through conservative measures;

- Because the Company has traditionally practiced appropriate financial management, it was able to withstand the economic crisis of 2008, emerging from the crisis maintaining its Investment-Grade rating from leading rating agencies;
- The ring fencing measures recommended by the Liberty Witnesses are unnecessary, because the Company has consistently practiced appropriate and careful financial management and financial separation of its utility and non-utility affiliates, and there is no evidence that it will fail to continue to do so;
- The very real costs of ring fencing, as well as the lack of financial flexibility that will result from the Liberty Witness' proposals, far outweigh the speculative potential benefits that Liberty Witnesses Antonuk and Vickroy attribute to their ring fencing measures; and
- The Company's careful financial management effectively has resulted in Delmarva being financially "ring fenced" without the additional burdensome and expensive regulatory provisions urged by the Liberty Witnesses.

3. Q: Please summarize your assessment of the Liberty Witness' ring fencing testimony.

A: Liberty Witnesses Antonuk and Vickroy claim that certain ring fencing measures are needed to ensure that PHI's utility subsidiaries remain financially separate from its non-utility subsidiaries, in order to insulate the utilities from risks associated with non-utility businesses. I do not agree. PHI has consistently and voluntarily practiced conservative financial management, which effectively ring fences and financially separates its utility subsidiaries from non-utility affiliates, and minimizes risk to utilities and their customers. In fact, many of the recommendations posited by the Liberty Witnesses consist of actions already undertaken by PHI and Delmarva to effect financial separation between utilities and non-utilities without the added expense that would be necessitated by the Liberty Witness' proposal.

Further, PHI's actions both before and during the 2008 nationwide financial crisis were appropriate, and shielded PHI's utilities from serious economic risk, while ensuring that they preserved sufficient capital to provide reliable service to their customers. PHI has consistently acted reasonably to ensure that utility customers do not bear the risks that may arise from the operation of its non-utility subsidiaries, and the Liberty Witnesses have offered no evidence that casts doubt on the likelihood that PHI management will continue to act responsibly. Indeed, the Investment-Grade ratings of PHI and the stronger Investment-Grade ratings of PHI's utility subsidiaries, including Delmarva, demonstrate that the credit rating agencies still believe in the continued careful and appropriate financial management of both PHI and Delmarva.

4. <u>Q: Does PHI's financial structure constitute a risk to its utility subsidiaries such as Delmarva?</u>

A: No. Witnesses Antonuk and Vickroy claim that PHI's financial structure and "lack of financial insulation" pose risks to utility subsidiaries like Delmarva. However, as I will show, these witnesses do not take into account either the substantial financial insulation that PHI incorporates in its day-to-day financial management, or the fact that Delmarva already performs several of the financial separating activities recommended by the Liberty Witnesses in their testimony. For example, Delmarva maintains its own separate books and accounting records, and files as a separate registrant with the SEC. Delmarva maintains its own bank accounts and conducts separate cash transactions. Under its mortgage indenture, Delmarva is not permitted to pledge assets to another affiliate, and PHI's Regulatory Code of Conduct and Cost Accounting Manual, both of which are approved by the Commission, prohibit Delmarva from engaging in cross-subsidization with affiliates. Because of PHI's conservative and appropriate management of its utility subsidiaries' finances, they were in strong financial condition and well positioned to manage through the 2008 economic crisis, and emerged with their Investment-Grade ratings still intact.

5. <u>Q: Do you agree with the Liberty Witness' reliance on the events of the 2008 economic downturn to support their ring fencing recommendations?</u>

A: No. The Liberty Witness' ring fencing testimony takes the events surrounding the 2008 economic downturn and attempts to characterize them, using hindsight, in a manner that supports their recommendations. I will demonstrate that their key assertions and recommendations are not supported by the facts. Specifically, I will demonstrate that: 1) PHI managed the liquidity of its non-utility subsidiaries in an appropriate and careful manner without relying on the liquidity resources of Delmarva or any other utility subsidiary; 2) at no time was Delmarva's financial position affected by the liquidity requirements of the non-utility subsidiaries of PHI; and 3) the liquidity requirements of Delmarva that led it to issue First

Mortgage Bonds in the fall of 2008 were driven by the lack of a functioning commercial paper market and a concern over the future of the deteriorating banking industry and financial markets, not by any need to bolster the liquidity of PHI's non-utility subsidiaries.

6. **Q: Were the financial management processes of PHI and Delmarva designed to address the challenges occasioned by the 2008 economic downturn?**

A: No. The economic downturn was severe; one of the most severe in our country's history and likely the worst since the Great Depression of the 1930s. However, it is neither cost-effective nor logical for any business to pay for the resources necessary to fully protect itself against such rare and devastating events at all times as a normal and ongoing business matter. Just as it would not be logical or cost-effective for Delmarva to maintain staff sufficient to immediately restore outages caused by a major hurricane, a phenomenon which only occurs infrequently, it does not make sense for Delmarva to continually maintain (*i.e.*, pay for) the resources needed to fully guard itself against a rare and devastating economic crisis at all times. Such practices would be inappropriate and far too expensive, needlessly increasing customer costs. Emergency situations require specific, targeted responses. PHI managed the economic crisis by developing plans, marshalling resources, acquiring other resources as needed, and managing the issues to a successful outcome.

7. **Q: Was the issuance of First Mortgage Bonds in November 2008 logical and reasonable?**

A: Yes. The $250 million, 5-year, 6.4% First Mortgage Bond issuance was a very logical and reasonable step to take in light of the economic crisis, the deteriorating condition of the banking industry and, more importantly, the breakdown in the commercial paper market. In the fall of 2008, PHI management was concerned that the nationwide liquidity crisis could extend into 2009 and, if it did, cash would not be available from any source at any price to finance the day-to-day operations of the Company. This bond offering provided the assurance of Delmarva's continued access to liquidity during the crisis at a reasonable price. Moreover, the proceeds of Delmarva's bond offering were intended and used solely for the benefit of Delmarva, and in accordance with the Commission's order in the bond offering proceeding, as we have repeatedly demonstrated. As I will show, Delmarva was only one of many utilities taking this same precautionary step.

8. Q: Do the Liberty Witnesses recognize that Delmarva already has ring fencing-like safeguards in place?

A: No. In both their analysis of PHI's day-to-day financial workings and their characterization of the events of 2008, the Liberty Witnesses fail to recognize that PHI in fact has in place ring fencing-like safeguards that ensure separation between its utility and non-utility subsidiaries. More importantly, the Liberty Witnesses fail to differentiate between the actions that PHI took for its utility subsidiaries and the actions it took for its non-utility subsidiaries. In so doing, they fail to recognize that the separation of financing between utility and non-utility affiliates was and is an integral part of PHI's financial management, and that did not change during the 2008 economic crisis.

9. Q: Do the Liberty Witnesses fully understand how the PHI money pool operates?

A: No. The Liberty Witnesses have also misunderstood the nature of PHI's money pool. The money pool is a facility that provides Delmarva and its affiliates with an additional source of short-term financing, only when additional funds are available. Without the money pool, Delmarva would be limited to financing in the capital markets. The PHI money pool is never used to confiscate the funds of one subsidiary – whether utility or non-utility – in favor of another.

10. Q: What are your conclusions with respect to the ring fencing proposals of the Liberty Witnesses?

A. The ring fencing provisions proposed by the Liberty Witnesses are unnecessary for Delmarva because most of the safeguards proposed are already in place. The benefits that the Liberty Witnesses claim will stem from their additional recommendations are hypothetical and speculative in nature, but the excessive costs that the recommendations will impose upon Delmarva are very real and substantial.

DELMARVA POWER & LIGHT'S FINANCING

11. Q: Please describe how PHI's affiliates are financed generally.

A: PHI's subsidiaries are financed based on their own needs, completely separate from each other. Additionally, accounting records are kept for each subsidiary separately at all times, as well as separate bank accounts. Moreover, each utility subsidiary is a separate SEC registrant, meaning that each company must file separate audited financial statements with the SEC. The non-utility subsidiaries rely first on their own cash flow for financing and then on the parent, PHI, if they need to borrow. PHI is also an SEC registrant.

12. **Q: Describe how Delmarva in particular finances its operations.**

A: Delmarva, like other appropriately managed companies, finances its day-to-day and long-term expenditures through a variety of sources. On a daily basis, Delmarva processes all the cash receipts received from customers paying their electric and natural gas bills. If daily cash receipts are not sufficient to cover the scheduled outgoing payments for that day, (*e.g.* payroll, taxes, interest payments, operations, vendor invoices, etc.), then Delmarva must borrow money on a temporary or short-term basis to meet its daily cash outflow needs.

13. **Q: How does Delmarva borrow funds on daily basis?**

A: Delmarva has three sources of borrowing on a daily basis. The primary source is the commercial paper market – a large and liquid public market for highly rated corporate borrowers, where investors seek to invest their cash short-term, from overnight to 270 days, by lending their cash to corporations at prevailing daily rates. In order for Delmarva to effectively participate as an issuer in the commercial paper market, it must have an Investment-Grade short-term credit rating by Moody's, Standard & Poor's (S&P) and/or Fitch. Further, to obtain an Investment-Grade short-term credit rating, Delmarva must have a liquidity back-stop, typically referred to as a credit facility.

Delmarva's second short-term funding source is its credit facility. A credit facility is a commitment from a syndicate of highly rated banks to provide funds on a daily basis at agreed upon terms and at an agreed upon price. Since commercial paper issuance is unsecured, rating agencies require the credit facility as a back-stop. In the event a borrower cannot issue its commercial paper, it can "draw down," or borrow, from the banks in its credit facility. Credit facility agreements typically allow a company to borrow for any general corporate purpose. Delmarva's third source of short-term funds is PHI's internal money pool, whereby other affiliates with cash on hand have invested their funds overnight in the money pool and those funds can be used by PHI subsidiaries in need of short-term cash at the prevailing interest rate.

14. <u>Q: Please describe Delmarva's longer-term financing sources.</u>

A: Delmarva obtains long-term financing authority from both of its regulatory Commissions – the Delaware Public Service Commission and the Maryland Public Service Commission. Delmarva typically projects its long-term financing needs and obtains sufficient authority to finance over a two-year period. Delmarva maintains long-term debt credit ratings from the rating agencies Moody's, S&P, and Fitch. In order to receive Investment-Grade ratings, the Company must meet financial and other rating criteria established by each of the rating agencies, among which are management competence and credibility. Its Investment-Grade credit ratings allow Delmarva broad access to a variety of capital markets. If Delmarva's ratings were below Investment-Grade, or "junk," as such ratings are often called, Delmarva's access to public markets would be significantly more limited and at higher cost – during some periods, at significantly higher costs. With its Investment-Grade ratings, Delmarva can issue secured bonds under its First Mortgage Indenture or unsecured bonds; Delmarva can issue taxable or, under certain circumstances, tax-exempt debt in fixed rate or floating rate modes; Delmarva can issue debt in public or private markets; and Delmarva can enter into bi-lateral loan agreements with banks (this can be on a short-term or longer-term basis). Further, Delmarva's parent, PHI, makes equity capital contributions to Delmarva to fund its capital needs and to maintain a strong equity ratio in the 46% to 50% range.

15. <u>Q: Why is it important to have so many flexible sources of financing?</u>

A: For a capital intensive industry such as the electric utility industry, access to capital in order to finance expenditures and day-to-day operations is critical. Delmarva's Investment-Grade credit ratings allow Delmarva access to diverse sources of financing. There are times in economic and business cycles when certain capital markets are less liquid, more expensive, or unavailable. Delmarva has the flexibility to take advantage of diverse financing sources under almost any economic climate.. Not only does Delmarva take advantage of a variety of short- and long-term sources of financing, it manages its debt maturity profile. A proper approach to liability management is to stagger maturities so that debt matures in stages, over time, thereby reducing refinancing risk in any one economic climate. Therefore, debt is issued and re-financed over various times in economic and business cycles.

Delmarva must take many issues into consideration when making financing decisions. The issuer (Delmarva) wants to issue debt that fits smoothly in its maturity profile at the lowest cost. Investors want the highest yields for the lowest risks. Depending on investor expectations, economic conditions and business cycles, Delmarva will issue debt with maturity dates where there are the most investors at the lowest cost – sometimes that can be longer-term debt of 10 years to 30 years, and sometimes that can be shorter-term debt of 5 years or less. We are able to issue debt at this Investment-Grade rating due to credit rating agency and investor expectations about the continued proper financial management of the company.

16. <u>Q: What is the overall impact on Delmarva's long-term cost of debt?</u>

A: Over time, Delmarva has issued fixed rate, floating rate, taxable, tax-exempt, public and private debt for terms ranging from 5 to 30 years. Delmarva's embedded cost of long-term debt is currently 5.45%, which ranks very low relative to other similar utility companies' average of 6.13% (*see* Schedule AJK RF-1). Delmarva has managed its debt portfolio appropriately over a long period of time.

<u>THE 2008 ECONOMIC CRISIS</u>

17. <u>Q: What are some of the specific events that affected Delmarva's liquidity during the crisis?</u>

A: Delmarva first began to be affected by the economic crisis in the fall of 2007. At that time, Delmarva attempted to issue $150 million of unsecured debt in the public market. However, we were unable to complete the offering because liquidity had begun to tighten and only larger issues of $250 million or more, referred to as "index size" issues were considered liquid enough to be accepted by fixed income investors. The unsecured form of Delmarva's offering was also problematic. This was a very early signal that the markets were beginning to have problems. As a result, Delmarva put off the issuance until it needed the larger amount, rather than issue the larger amount and have excess funds accruing interest.

The next major development was the credit deterioration in early 2008 of the triple-A rated monoline insurance companies (Ambac Assurance Corporation and

MBIA Insurance Corporation). Monoline Insurance companies provided credit enhancement services. It was common and economically beneficial at that time to use such services to enhance the ratings of tax-exempt debt issues, and thus lower the overall cost. Delmarva used these services for several of its low cost, floating rate tax-exempt issues. The monoline insurance companies were downgraded by the rating agencies because of their exposure to the real estate market. Even though the real estate market collapse had nothing to do with Delmarva, the multiple grade downgrades of these companies' ratings resulted in a loss of confidence by investors in any outstanding debt issues that they were associated with – including Delmarva's. This is also around the time that Bear Sterns, a major investment bank, was failing and needed to be bailed out—the first of a series of bank failures. As a result, Delmarva's outstanding floating-rate tax-exempt securities could no longer be placed with investors, so Delmarva had to repurchase them. Rather than retire these very low-cost issues, Delmarva used its liquidity to buy them and place them in inventory, in hopes the market problems would be temporary and that we could reissue these securities at a later date. Of course, it became clear later in the year that the real estate market problems that brought down the monoline insurers also hit the large money center banks.

The next major event that affected Delmarva was the loss of investor confidence in the commercial paper market. This began to exhibit itself in mid-September of 2008. The commercial paper market was becoming problematic (Lehman Brothers failed and other money center banks were under pressure) and borrowers were not able to place their offerings, because investors were not buying them. PHI's non-utility subsidiaries withdrew their deposits from the money pool to satisfy collateral calls, and there were no longer excess funds in the pool for Delmarva to borrow. Delmarva needed access to liquidity in amounts that were greater than available in the commercial paper markets, and borrowed from its back-up credit facility. The credit facility is finite and we knew we could not continue to rely on it indefinitely. As the crisis began to deepen, and more and more banks were having liquidity problems and the financial markets began to show serious signs of disruption, we concluded that to insure Delmarva's continued access to funds to operate during the balance of 2008 and into 2009 we would need to complete a secured bond offering.

Also, as I briefly mention above, the major difference between past periods of financial disruption and the circumstances in late 2008 was the fact that many, if not all, of the credit facility banks were having liquidity crises of their own. For example, as I pointed out earlier, Lehman Brothers filed for bankruptcy, and Bear Sterns went out of business. PHI's credit facility consisted of a diverse group of banks to avoid reliance on one or a small group of banks, so that in the eventuality of a bank failure, the credit facility would remain strong. Despite this diversification, the credit facility became unreliable, as major banks including Citi, Merrill Lynch, Wachovia Bank, Bank of America and Morgan Stanley, all of which are significant participants in PHI's credit facility, were perceived to be on the verge of bankruptcy. Had Delmarva not accessed the securities market when it did, it would have been taking a very high stakes risk, because neither its primary nor secondary sources of liquidity were reliable at the time.

PHI's AND DELMARVA'S ACTIONS DURING THE 2008 ECONOMIC CRISIS

18. Q: Please describe how PHI managed its finances before the 2008 crisis.

A: PHI practiced a system of conservative fiscal management to ensure that all of its subsidiaries were able to access liquidity when needed. PHI also practiced financial separation among its non-utility and utility subsidiaries by ensuring that each subsidiary managed its own bank accounts, cash management systems, and accounting records. As I explain above, Delmarva had several ways to access short-term capital needed for its business operations: through the commercial paper market, the PHI credit facility, and PHI's money pool. This provided Delmarva with the flexibility to obtain capital from several sources when needed. PHI's financing activities for non-utility subsidiaries were separate from utility subsidiaries.

PHI and its subsidiaries carefully ensured that all subsidiaries would have sufficient capital for their operations on a daily basis. When the economic crisis of 2008 occurred, PHI's financial management processes helped the companies by keeping them in a good financial position when other sources of liquidity began to dry up. However, PHI also needed to take actions to ensure that its subsidiaries would continue to have access to liquidity if the crisis continued into 2009, and credit continued to be difficult to obtain. This is why PHI took action during the fall of 2008 to ensure that its utilities and non-utilities would have capital to meet their future needs. PHI did not provide liquidity to non-utilities at the expense of utilities. Rather, PHI took separate actions to ensure that both non-utilities and utilities would have access to liquidity.

19. Q: How did the financial crisis impact PHI's non-utility subsidiaries?

A: PHI's non-utility subsidiaries Pepco Energy Services (PES) and Conectiv Energy Holdings (CEH) do business in the energy commodity markets. PES acquires customers who enter into contracts to purchase power and/or natural gas at a set price. PES then seeks suppliers to provide these customers with power and/or natural gas. CEH predominantly purchases fuel (such as natural gas, oil, or coal) at a set price for use in their owned generation facilities. Because the price of electricity or fuel may vary, the contracts with energy providers require PES and CEH to post collateral with their suppliers under certain circumstances to ensure that they will purchase energy or fuel at the agreed-upon price. During the financial crisis of 2008, spot market energy prices dropped dramatically. The agreed-upon energy prices under the energy contracts that PES and CEH had entered into with energy providers, however, remained the same. Because the gap between the agreed-upon price and market energy prices increased, the collateral that had to be posted by PES and CEH also increased dramatically. This caused liquidity issues for PES and CEH, because they soon began to need increasing amounts of capital to post collateral.

20. Q: What actions did PHI deem necessary to address the impact of the 2008 economic crisis?

A: PHI determined that in order to weather the economic crisis, it must:

- Protect the regulated utilities from continued volatility in 2008 and into 2009;
- Approach its financing needs proactively;

- Consider how to obtain the liquidity needed to fund activities planned for 2009 immediately to ensure that it would have the cash in hand to operate should the economic crisis continue; and
- Move quickly to obtain liquidity, due to the risk that liquidity would not be available or would be harder to obtain if the economic crisis continued.

21. Q: How did PHI go about implementing its financing decisions during the crisis?

A: PHI developed a three-pronged approach:

First: PHI reduced overall spending in its subsidiaries, utilities and non-utilities alike. PHI did this by implementing a hiring freeze, eliminating non-union salary increases and temporarily deferring non-reliability utility and CEH construction spending.

Second: PHI reduced collateral needs and increased liquidity for the non-utility businesses. Because the non-utility subsidiaries of PHI required short-term liquidity in order to meet their collateral obligations, PHI entered into a $400 million credit facility with nine banks to support the non-utility entities. PHI also entered into a Credit Intermediation Agreement to immediately reduce collateral needs faced by PES. These actions were taken to support the non-utility subsidiaries – PHI's utilities had no involvement in these actions, did not incur any costs, did not experience increased risk, and did not contribute any capital to increase the non-utilities' liquidity.

Third: PHI accelerated financing activities for its utility subsidiaries that had been scheduled for 2009 and 2010. Delmarva had already planned to file a 2008 application for authority from the Delaware PSC to allow it to issue long-term debt in 2009. At that time, however, PHI was concerned that the financial crisis could continue such that the long-term debt it planned to issue in 2009 would not be available. In order to protect Delmarva from that very real risk, it was determined that Delmarva should request that the PSC expedite its grant of authority so that it could issue long-term debt in 2008 instead. That decision assured that Delmarva would have access to the long-term financing it needed in 2009, even if the financial crisis continued or worsened into 2009. All of PHI's regulated utilities sought and obtained state regulatory approval for similar expedited financings. Pursuant to those state regulatory approvals, Potomac Electric Power Company (Pepco), Atlantic City Electric (ACE) and Delmarva each issued $250 million of First Mortgage Bonds in November and December 2008. All of these actions were taken to support the utility subsidiaries only – no money obtained from the utilities' issuance of First Mortgage Bonds was used to increase the non-utilities' liquidity. Prior to the issuance of this debt, PHI took action to protect the utilities by issuing $265 million of equity in November 2008, which lowered the interest cost of the utility debt issuances.

22. <u>Q: Why did PHI determine that the credit facility was the correct solution for the non-utilities while a bond offering was the correct solution for the utilities?</u>

A: The non-utility companies do not have credit ratings and therefore cannot access the public debt markets. Moreover, their liquidity needs involved having access to short-term funding to post collateral – money that would be returned to them either as commodity prices rose or as their customers paid for the contracted services. In other words, their need was short-term. The utilities, on the other hand, needed funds to continue to fund their construction programs and to fund their day-to-day operations, potentially for all of 2009 if the crisis had continued; in other words, they had long-term, ongoing needs. Also, the non-utilities had the option of closing down their businesses permanently or temporarily. The utilities never have that option.

In fact the utilities were planning to issue debt within a short period of time; the issuances were only accelerated so that the utilities would be able to quickly obtain financing in 2008 to ensure liquidity in 2009. In contrast, the Credit Intermediation Agreement and $400 million credit facility were the most efficient means to add needed short-term liquidity to PHI's non-utility subsidiaries, as these solutions did not add debt, but reduced collateral requirements. Thus, PHI entered into a credit facility agreement to accommodate the non-utilities' short-term needs, while the bond issuance for utility subsidiaries addressed the utilities' long-term financial needs.

23. <u>Q: Why was it so important for Delmarva to expedite its application to issue long-term debt?</u>

A: Due to the credit crisis and the instability of many of our credit banks, PHI determined that the most appropriate time to issue long-term debt would be as quickly as possible. PHI was concerned that capital would become more scarce in the event the crisis continued into 2009, as investors may have exhausted their resources on earlier issuances. PHI's actions ensured that buyers were available for its debt, and ensured that the utilities would retain liquidity if the crisis continued unabated or worsened.

24. <u>Q: Please describe Delmarva's $250 million bond offering.</u>

A: As I mentioned earlier, Delmarva must have financing authority from both the Delaware and Maryland Commissions in order to execute any long-term financing. The typical filing and approval process can take several months to accomplish in the ordinary course of business. Delmarva had residual authority from a prior proceeding to execute a limited amount of long-term financing, but that authority was scheduled to expire on December 31, 2008. Because of this, Delmarva had already planned to make a filing for new financing authority in the fall of 2008. Given the uncertainty of the markets and the disruption of the commercial paper market, Delmarva filed in Delaware and Maryland simultaneously for expedited financing authority of $250 million in debt. The Delaware filing requested waiver of a pre-filing notice to shorten the approval timeline and afford Delmarva the flexibility to access the capital markets as soon as possible.

Delmarva filed its application with the Commission on October 17, 2008 and received a preliminary Order on November 5 and a final Order on November 21, 2008 authorizing the $250 million bond issuance, subject to specific use of proceeds conditions. Delmarva closed on the bond issuance on November 25, 2008 – a 5 year First Mortgage Bond at a 6.40% coupon rate.

25. <u>Q: What were the specific conditions included in the Delaware Financing Authorization?</u>

A: Pursuant to the Commission's Order No. 7487, attached hereto as Schedule AJK RF-2, Delmarva was authorized to issue the $250 million in long-term debt, on the condition that it:

- repay $150 million that Delmarva borrowed from its portion of the PHI credit facility;
- repay $34 million of Delmarva's outstanding commercial paper;
- invest the remaining $66 million in a money market account designated exclusively for use by Delmarva utility operations; and
- provide a quarterly report to Staff detailing a capital expenditure forecast, a sources and uses cash-flow report, and a rate of return report.

In addition, Delmarva agreed to meet with Staff quarterly through June 2009 regarding Delmarva's financial condition.

26. <u>Q: Did Delmarva comply with these financing requirements?</u>

A: Yes, Delmarva complied with all the requirements and used the proceeds specifically for utility operations. On January 28, 2008, Delmarva met with the Delaware Staff and the Division of the Public Advocate (DPA) to review the use of proceeds of the November 2008 bond issue, year-end money pool and investment balances as well as investment balance for January 27. At that meeting the participants discussed how Delmarva was to proceed in compliance with the conditions of Order 7487. Delmarva understood that any further documentation would be requested by Staff when needed. However, Staff notified Delmarva on July 29, 2009 that their understanding was that no meetings were required but that they wanted to see quarterly the Delmarva cash flow statements and capital expense estimates. Delmarva provided the report to Staff and DPA for the four quarters of 2009 as requested. No further meetings have been requested by Staff or the DPA. Delmarva will continue to send these quarterly reports to Staff and the DPA until notified that they are no longer required. We also remain available for meetings at their request.

27. Q: Did Delmarva use any of the proceeds of its financing for PHI's non-utility businesses as the Liberty Witnesses suggest on pages 20-21 of their testimony?

A: No. The proceeds of Delmarva's financing were used consistent with the directive of the Commission. The proceeds from that financing were not used for any other purpose.

28. Q: On page 23, lines 1-2 of their testimony, the Liberty Witnesses state that "utility-focused management would have sought to avoid issuing longer-term debt" during the 2008 economic crisis. Did any other utilities issue debt at the same time and in a similar manner to Delmarva's issuance of debt in November 2008?

A: Yes. A Citi report on Global Power Financing, issued in February, 2009, the relevant pages of which are attached as Schedule AJK RF-3, provides a list of 40 utilities that issued over $15 billion in debt between August 2008 and December 2008, in the midst of the economic crisis.

29. Q: At page 18 of their ring fencing testimony, the Liberty Witnesses assert that PHI board documents in October of 2008 demonstrate an involvement of the utilities in the liquidity management efforts. Please comment.

A: Liberty Witnesses correctly state that the PHI board documents show a management plan for ensuring that its subsidiaries retained their liquidity, which is nothing more than reasonable corporate management. What Liberty Witnesses do not do, however, is distinguish between the separate actions that PHI took for non-utility subsidiaries and those that PHI took for utility subsidiaries. The PHI Board was concerned about the liquidity shortage for both its utility and non-utility subsidiaries, and management took separate actions to manage each. As I discuss in my testimony above, PHI entered into a $400 million credit facility and a Credit Intermediation Agreement to increase capital for its non-utility subsidiaries. This action did not benefit, nor was it funded by, PHI's utility subsidiaries. In contrast, PHI decided to fund its utilities through the debt issuance described earlier in my testimony.

30. <u>Q: At page 25 of their testimony, the Liberty Witnesses assert that Delmarva was "displaced" from borrowing from the money pool. Please comment.</u>

A: Money is only available for a subsidiary to borrow from the money pool if another subsidiary has excess funds temporarily on deposit. That is how the money pool works. If a depositor to the money pool requests its investment to be returned, the borrowers must repay the money pool. Such transactions are necessarily, and understood by all participating subsidiaries as, short-term and subject to return on request. In this case, as commodity prices began to decline in the second half of 2008, the non-utility companies redeemed their investments to satisfy collateral calls, and there were no longer excess funds in the pool for Delmarva to borrow. Delmarva then issued its own commercial paper and borrowed on its credit facility to repay the money pool.

A utility-only money pool, as recommended by Liberty Witnesses on page 38, line 17 of their testimony, would also work in this way. If the depositing utilities needed their investments returned, any borrower would be "displaced" from that money pool. The Liberty recommendation would not offer Delmarva any additional protection from a money pool investor asking for the return of its deposit. Delmarva does not and would not, if the Liberty Witness' proposal was implemented, have a legal or other "right" to other companies' money, whether in a utility-only money pool or the PHI money pool, and the non-utility subsidiaries of PHI do not have a legal or other "right" to Delmarva's money.

31. Q: On page 29 of their testimony, the Liberty Witnesses recommend that Delmarva participate in a utility-only money pool, and have its own credit facility. Please comment.

A: Delmarva has benefited from participation in the money pool and from its participation in the combined PHI credit facility. If Delmarva is required to enter into its own credit facility and is prohibited from participating in the money pool, its costs will increase. Delmarva will no longer have access to the money pool funds deposited by the non-utility businesses and it will have to pay for its own credit facility. In addition, as I describe above, a utility-only money pool will work in the same way as a money pool with utility and non-utility participants, so Delmarva would not benefit from participating in a utility-only pool.

PHI DID NOT TAKE FINANCING ACTIONS BECAUSE OF A THREAT OF DOWNGRADE BY A RATING AGENCY

32. **Q: Was PHI acting directly in response to the fear of imminent credit downgrades from rating agencies when it performed these actions, as stated on page 20, lines 14-15 of the Liberty Witness' testimony?**

A: No, we were not in fear of imminent downgrade. We took proactive steps to protect our liquidity and credit ratings. We were in constant communication with the rating agencies during this period and were never told that our ratings were in jeopardy. The agencies found our proactive actions appropriate and credit-positive. Moody's published a Special Comment in October 2008 titled "U.S. Investor-Owned Electric Utilities – Somewhat Insulated But Not Immune from Credit Market Stress, Economic Weakness." That Moody's report is attached as Schedule AJK RF-4. In this report Moody's says, "In light of current economic and financial market conditions, any action to increase capital, increase credit capacity, eliminate refinancing risk and otherwise inoculate the business from capital market volatility should be viewed as a significant credit positive...." Moody's further states:

> Moody's does not view the recent announcements by some utilities that they are making material draw-downs on their bank credit facilities negatively....Nevertheless, we would be concerned if the current conditions in the financial markets, which include a disruption to the commercial paper markets, were to remain in effect for a protracted period of time or if the ability to access the term markets were to be disrupted for an extended period of time. These risks argue for a relatively quick reduction to these drawn facilities before liquidity has a chance to become stressed over the intermediate term horizon.

Moody's concludes that "[p]roactive actions to bolster liquidity availability and strengthen balance sheet [are] viewed as appropriate given current economic and financial market conditions."

PHI and Delmarva management took precisely the proactive actions that the Moody's report viewed as positive. As the report explains, rating agencies and businesses alike were concerned about the commercial paper market disruption, and worried that commercial paper would remain unavailable for long periods of time. PHI took proactive actions to bolster its utilities' liquidity, and did so quickly in order to retain the advantage of an early debt issuance. The result was that Delmarva was able to maintain its Investment-Grade rating during and after the 2008 financial crisis. Delmarva should not be penalized for the financing actions, recognized in the financing world as appropriate and beneficial, that it took during the 2008 economic crisis.

33. Q: What is your view of the Liberty Witness' claim that regulated utilities have suffered large rating downgrades due to association with failing non-utility business ventures?

A: The Liberty Witnesses provide examples of utility downgrades between the 2000 - 2003 time period. These examples are inappropriate, because that period was abnormal due to the industry changes at that time (deregulation, generators becoming competitive, the Enron scandal, companies not filing financials on time, etc.). I provide an updated chart from Fitch as Schedule AJK RF-5, which shows much more balanced upgrade/downgrade activity through the current period.

Downgrades or rating changes should not be confused with default. The companies that went bankrupt during the 2000-2003 period were almost pure merchant companies like Enron, Mirant, and NRG. In addition, many of those companies suffered from far more serious issues than mere involvement in non-utility ventures. For example, Enron was involved with fraudulent activities, for which many of its executives were criminally prosecuted. To draw similarities between these companies and PHI is clearly inappropriate.

[redacted]

[redacted]

LIBERTY WITNESSES' ADDITIONAL CLAIMS OF UTILITY RISK DUE TO NON-UTILITY AFFILIATES ARE UNFOUNDED

36. **Q: On pages 16 and 17 of their testimony, the Liberty Witnesses claim that the IRS challenge of certain PHI lease investments is a risk to Delmarva due to holding company affiliation. Do you have any comments?**

A: Yes. The IRS challenge of PHI's lease investments will not put Delmarva at any risk. PHI's public SEC disclosure in its 10K specifically states that in the event of a total disallowance of 100% of the tax benefits associated with the leases, PHI could liquidate all or a portion of the lease portfolio and would generate sufficient cash proceeds to cover the estimated taxes and interest that would be due. Delmarva's cash, liquidity and operations would not be impacted at all.

37. Q: On page 21 of their testimony the Liberty Witnesses mention that PHI has announced that PES will exit the retail energy supply business. Please comment on the status of PES's wind-down.

A. On December 7, 2009, PHI announced that it would wind down the retail electric and natural gas supply business that it conducts through PES. PES continues to fulfill and service all existing obligations as of that date, but has discontinued the sale of new retail energy supply contracts. Contracts with retail customers continue to expire and roll off monthly and are not renewed, and as these contracts expire, the collateral associated with the hedges required to support the contracts is returned. As of December 31, 2009, PHI estimated that more than 80% of the collateral required to support PES' retail contracts will be released by the end of 2011, which will substantially reduce the collateral and liquidity needs of PES.

THE PUBLIC SERVICE COMMISSION SHOULD NOT ADOPT THE LIBERTY WITNESSES' RING FENCING RECOMMENDATIONS

38. Q: Should Delmarva be required to adopt the mandatory ring fencing measures proposed by the Liberty Witnesses?

A: No, because PHI and Delmarva already implement many of those recommendations without the additional cost associated with being required to do so through regulations. The Liberty Witness' recommendations are not appropriate for a company like PHI that comprises mainly regulated utilities, and manages its finances in an appropriate, conservative manner to ensure that non-utility affiliates do not financially impact the utilities in the holding company group. PHI's financial management allows Delmarva and PHI's other utility subsidiaries to obtain many of the benefits of ring fencing without incurring the excessive costs that are inherent in the Liberty Witness' recommendations. The Liberty Witnesses compare companies with significant non-utility operations such as Constellation (which is 25% utility and 75% non-utility), foreign-owned companies, or other specific issues such as Enron's bankruptcy, which occurred in large part due to fraud. Frankly, the situations faced by the examples that the Liberty Witnesses raise have no relevance to PHI's business, which is 73% utility operations and only 27% non-utility, based on operating income. PHI manages its finances appropriately, and has financially separated its utility operations since its formation in 2002. There is no need for the Commission to adopt the Liberty Witness' recommendations.

39. <u>Q: Can you elaborate?</u>

A: Yes. Let's review Delmarva's current financial management as compared to the Liberty Witness' recommendations on page 38-39 of their testimony.

1) "[Delmarva] shall not make any distributions that would cause its equity capital to fall below 40 percent of permanent capital." (38:15-16)

   - PHI has publicly stated they target a high 40% (46% to 50%) equity ratio for Delmarva; in 2008 and 2009 PHI demonstrated its commitment to maintaining the utility equity ratios by making capital contributions to the utilities to maintain their ratios; and the Delmarva credit facility contains a leverage ratio covenant to maintain a Total Debt to Total Capitalization no greater than 65% or conversely an equity ratio minimum of 35%.

2) "[Delmarva] may not participate in any money pool that involves non-utility businesses, operations, or participation." (38:17-18)

- As I previously explained, the activity in PHI's money pool is separated among utilities and non-utilities, and no company has a right to take an affiliate's money. The money pool adds benefit by making a flexible and reliable source of short-term capital available to utilities, and provides utilities with additional income through the interest that is paid to them if non-utilities borrow from the money pool.

3) "PHI must create separate credit facilities for its utility subsidiaries, PHI and its non-utility subsidiaries through solicitation processes that are completely independent and wholly unconnected." (38:19-21)

- Delmarva and its utility affiliates, Pepco and ACE, share a $625 million separate sublimit in PHI's $1.5 billion credit facility. The credit agreement has no cross-default provisions and provides Delmarva uninterrupted liquidity access in an event of default by ACE, Pepco or PHI. If Delmarva had a separate credit facility, that facility would have to be larger, and would be more expensive for Delmarva and its customers.

4) "[Delmarva] and PHI must establish a bankruptcy-remote special purpose entity or class of preferred stock that will protect [Delmarva] in the event of a holding company bankruptcy." (38:22-24)

- Such a measure would be an extreme response to the events of the economic crisis of 2008 and is far from being warranted for Delmarva. It has only been used in very specialized cases in the utility industry.

5) "Separate cash management systems must be maintained; those that involve [Delmarva] must be separate and distinct from those of the holding company and any non-utility affiliate." (38:25-27)

- Delmarva currently maintains its own bank accounts with no right to setoff between Delmarva accounts and its affiliates, maintains separate cash transactions and uses a cash management workstation that segregates all Delmarva cash-related activity. The Liberty Witnesses agree with this assessment in their response to Company Ring Fencing Data Request 32, attached hereto as Schedule AJK RF-8.

6) "[Delmarva] may not enter into any inter-company loans, guarantees or credit support agreements with the holding company or any affiliate, nor may any expectation of any form of utility support for non-utilities be created." (38:28-30)

- PHI manages its utilities as independent companies and Delmarva has never entered into an inter-company loan to an affiliate.

7) "DP&L must maintain separate accounting books and records using systems separated from those of the holding company and all affiliates." (39:1-2)

- Delmarva already maintains its own separate accounting books and records, and is a separate SEC registrant and filer. The Liberty Witnesses agree with this assessment in their response to Company Ring Fencing Data Request 33, attached hereto as Schedule AJK RF-9.

8) "DP&L and PHI must provide Commission access to all books, records, documents, data, board minutes, presentations and forecasts of DP&L, PHI and all PHI subsidiaries and affiliates." (39:3-5)

- Delmarva does not agree with this recommendation. The forecasts of PHI's non-utility businesses are completely confidential and irrelevant to the distribution operations of Delmarva in the State of Delaware. Forecasts of non-utility businesses are not provided to any other state commissions in any other proceedings. They are not relevant to the regulated cash flows and operating expenses of Delmarva, nor are they relevant to Delmarva's separate credit rating.

9) "No DP&L assets, financial support, or cash flow may be pledged or used as collateral for the benefit of any entity except DP&L, and holding company and affiliate financing agreements and arrangements must disclaim any informal representation, commitment, or expectation of such support." (39:6-9)

- Delmarva's mortgage prohibits Delmarva from pledging assets to any other entity.

10) "DP&L asset sales of greater than $20 million must be approved in advance by the Commission." (39:10-11)

- This recommendation is already covered in existing Delaware legislation. Under title 26, section 215(a)(1) of the Delaware Code, Delmarva is required to obtain Commission approval for sales of any property that is an "essential part of its franchises, plant, equipment or other property, necessary or useful in the performance of its duty to the public."

11) "DP&L and PHI must establish an annual reporting process regarding the status of each of the ring fencing requirements." (39:12-13)

- Delmarva and PHI would agree to annual reporting on the existing safeguards in place and steps they take to maintain separation between Delmarva and its affiliated companies.

All transactions between Delmarva and non-utility affiliates are governed by the PHI Regulatory Code of Conduct and Accounting Policy guidelines which protect the regulated utility's financial strength by prohibiting cross-subsidization. Key financial separation actions have already been adopted and in practice for quite some time. Further, Delmarva is operated as a single corporate entity in both the state of Delaware and the state of Maryland. A state-mandated set of regulatory requirements for a utility that operates in more than one state would not be viable. The costs to regulate, monitor, and report Delmarva's Delaware financial activities would outweigh any additional benefit that could be realized over and above the significant financial separation benefits and SEC reporting already in place.

40. <u>Q: Do Liberty Witnesses provide any indication that PHI's and Delmarva's financial management is already appropriate?</u>

A: Yes. On pages 32-34 of their testimony, Liberty Consulting discusses holding company leverage, parent equity contributions and PHI's risk management programs. In all these areas they concluded that PHI's policies, approach, and structure have been appropriate and responsible. These are significant indications that the financial separation of Delmarva has been effective and beneficial to customers. The Liberty Witnesses could not find any reasons to suggest changes.

41. <u>Q: If Delmarva were to obtain its own separate credit facility and no longer share a sublimit with Pepco and ACE, what is your estimate of what the incremental cost would be to Delmarva?</u>

A: Currently, Delmarva saves money because it shares a $625 million sublimit with its regulated utility affiliates, ACE and Pepco. If Delmarva were to obtain its own facility, Delmarva would need an additional $300 million to support its $500 million commercial paper program. Currently the up-front cost for a 3 year credit facility in this size range for Delmarva's credit category would be approximately 62.5 basis points or approximately $1.875 million in up-front costs ($0.625 million annually). The commitment fee for the facility would be approximately 37.5 basis points or $1.125 million annually. In contrast, annual savings from a potential credit rating upgrade (A- to A) would be in the $0.35 million to $0.7 million range. Furthermore, the savings from such a potential credit upgrade are not guaranteed and would take time to materialize, while a separate credit facility would be a definite cost. The credit facility cost is only one element of the total incremental cost for the type of ring fencing activity that the Liberty Witnesses are suggesting. I consider this to be a significant and unnecessary cost

42. <u>Q: What is your opinion of Liberty Witnesses' proposal to disallow a portion of the cost of debt issued by Delmarva in 2008 and the proforma debt issue included in Delmarva's ratemaking capital structure?</u>

A: The Liberty Witnesses are proposing to disallow a portion of the cost of the Delmarva debt for two reasons: the timing of the Company's $250 million First Mortgage Bond issue and an asserted negative influence on Delmarva's bond rating by its non-utility affiliates. The Liberty Witness' proposal to disallow a portion of the cost of the debt issued in the fall of 2008 to protect Delmarva's liquidity against a worst case scenario due to its timing is unfairly punitive and wrong. Had Delmarva not issued the bonds, and the economic downturn continued to deteriorate and/or extend further into 2009, Delmarva would likely have had to take much more costly actions that could have adversely affected the provision of electric service. The decision to act as it did and when it did was an appropriate and proactive one, made in the best interests of Delmarva and its customers.

The Liberty Witnesses base their recommended disallowance on timing, claiming that it was only holding company pressure that caused Delmarva to issue debt in November 2008, and that appropriately utility-focused management would have sought to avoid issuing debt at that time (22:27-23:2). I have shown throughout this testimony that Delmarva did not issue debt in November 2008 because of holding company pressure. As to the actions of appropriately utility-focused managements, I have previously noted in my testimony that 40 utility companies issued over $15 billion of debt during the last five months of 2009. I would have made the bond issuance during November 2008 even if Delmarva had its own separate credit facility.

The disallowance of a portion of Delmarva's debt cost due to the negative influence on the Company's bond rating by its non-utility affiliates is made to both Delmarva's actual debt issue in November 2008 and to Delmarva's debt issue planned for September 2009. This disallowance is based on the Liberty Witnesses' highly speculative assertion that if not for the impact of the non-utility affiliates Delmarva's bond rating would be one rating notch higher.

Staff Witness Rothschild makes the adjustments to Delmarva's embedded debt cost rate to reflect the disallowances for both reasons on pages 10 and 11 of his testimony after being advised by the Liberty Witnesses. Even Witness Rothschild seems to agree that the Liberty Witnesses position is speculative when he states on lines 5 and 6 of page 10 that: "This [the Company's] embedded cost of debt computation was made without any consideration for what impact non-utility activities *might* have had on the amount." (Emphasis added). Witness Rothschild, through his calculations of the amounts to disallow, muddies the waters further through the data he uses and the assumptions he makes. He bases his adjustments on his rough interpretations of data shown on graphs. He makes broad assumptions about how bond yields change between different time periods and between different credit ratings.

Delmarva's $100 million debt issue included in its proforma ratemaking capital structure did not take place in September 2009 as originally planned. It now will be issued in April 2010 as a tax-exempt bond. The yield spread data currently is much different from the data used by Staff Witness Rothschild. The disallowance of Delmarva's debt cost as proposed by the Liberty Witnesses and as calculated by Witness Rothschild should be rejected since it is punitive and speculative.

43. <u>Q: Please comment on the Liberty Witness' golden share recommendation.</u>

A: The Liberty Witnesses recommend that Delmarva and PHI establish a bankruptcy remote special purpose entity or a special class of preferred stock, known as the "golden share." To support their recommendations, the Liberty Witnesses provide the example of Portland Gas and Electric (PGE), an electric utility subsidiary of Enron, which used such a mechanism as a reaction to the Enron bankruptcy. Clearly, the factors leading to the Enron bankruptcy, which included criminal actions and fraud, were an extreme set of circumstances that bear no resemblance to PHI's or Delmarva's situation. Forming a special purpose entity or issuing special classes of new securities is not warranted and is an extreme response to the events of the 2008 economic crisis. As Company Witness Fetter states in his rebuttal testimony, these types of mechanisms have only been used as conditions necessary to complete mergers involving companies that possess international relationships or holding companies with high ratios of non-utility to utility net income. PHI is not involved in an international relationship with another company, and has high ratios of utility to non-utility income.

Further, the Liberty Witnesses provide only sparse details about their recommendation, and no explanation of how their recommendation would work or how it would be implemented, or how much it would cost. Delmarva attempted to obtain more details regarding the special purpose entity or golden share through the discovery process. In response to the Company's Ring Fencing Data Request 30, attached hereto as Schedule AJK RF-10, the Liberty Witnesses stated, "We have not undertaken an analysis of what would be required to meet the goal of this entity while conforming to applicable law." Because is so extreme and inappropriate for

Delmarva and the Liberty Witnesses have not provided additional detail regarding this recommendation, it should be rejected.

44. <u>Q: Does this conclude your supplemental rebuttal testimony?</u>

A: Yes.

Ratemaking Cost Rate of Long Term Debt
As Reported By Regulatory Research Associates
Investment Grade Electric Utilities
January 1, 2009 to March 8, 2010

	State	Company	Case Identification	Service	Increase Authorized Date	LTD Cost Rate %
	Delaware	Delmarva Power and Light Co.	09-414/09-276T	Electric		5.45
1	New York	Central Hudson Gas & Electric	C-08-E-0887	Electric	6/22/2009	4.86
2	Virginia	Kentucky Utilities Co.	PUE-2009-00029	Electric	3/4/2010	4.90
3	Wisconsin	Wisconsin Electric Power Co.	D-5-UR-104 (WEP-EL)	Electric	12/18/2009	5.36
4	Michigan	Consumers Energy Co.	C-U-15645	Electric	11/2/2009	5.69
5	Arizona	Arizona Public Service Co.	D-E-01345A-08-0172	Electric	12/16/2009	5.77
6	Missouri	Union Electric Co.	C-ER-2008-0318	Electric	1/27/2009	5.77
7	New York	Consolidated Edison Co. of NY	C-08-E-0539	Electric	4/24/2009	5.79
8	North Carolina	Duke Energy Carolinas LLC	D-E-7, Sub 909	Electric	12/7/2009	5.82
9	South Carolina	Duke Energy Carolinas LLC	D-2009-226-E	Electric	1/27/2010	5.82
10	Idaho	Idaho Power Co.	C-IPC-E-08-10	Electric	1/30/2009	5.93
11	Oregon	Idaho Power Co.	D-UE-213	Electric	2/24/2010	5.96
12	Indiana	Indiana Michigan Power Co.	Ca-43306	Electric	3/4/2009	5.98
13	Michigan	Detroit Edison Co.	C-U-15768	Electric	1/11/2010	6.00
14	Arkansas	Southwestern Electric Power Co	D-09-008-U	Electric	11/24/2009	6.02
15	Utah	PacifiCorp	D-08-035-38	Electric	4/21/2009	6.02
16	Wisconsin	Madison Gas and Electric Co.	D-3270-UR-116 (elec)	Electric	12/22/2009	6.13
17	Colorado	Public Service Co. of CO	D-09AL-299E	Electric	12/3/2009	6.21
18	California	Southern California Edison Co.	Ap-07-11-011	Electric	3/12/2009	6.22
19	Wisconsin	Northern States Power Co - WI	D-4220-UR-116 (elec)	Electric	12/22/2009	6.26
20	North Dakota	Otter Tail Corp.	C-PU-08-862	Electric	11/25/2009	6.33
21	Wisconsin	Wisconsin Power and Light Co	D-6680 UR-117 (elec)	Electric	12/18/2009	6.39
22	Connecticut	United Illuminating Co.	D-08-07-04	Electric	2/4/2009	6.42
23	Ohio	Duke Energy Ohio Inc.	C-08-0709-EL-AIR	Electric	7/8/2009	6.45
24	Ohio	Cleveland Elec Illuminating Co	C-07-0551-EL-AIR (CEI)	Electric	1/21/2009	6.54
25	Ohio	Ohio Edison Co.	C-07-0551-EL-AIR (OE)	Electric	1/21/2009	6.54
26	Ohio	Toledo Edison Co.	C-07-0551-EL-AIR (TE)	Electric	1/21/2009	6.54
27	Idaho	Avista Corp.	C-AVU-E-09-01	Electric	7/17/2009	6.60
28	Oklahoma	Public Service Co. of OK	Ca-PUD-200800144	Electric	1/14/2009	6.60
29	Minnesota	Northern States Power Co. - MN	D-E-002/GR-08-1065	Electric	10/23/2009	6.61
30	Florida	Tampa Electric Co.	D-080317-EI	Electric	3/17/2009	6.80
31	Iowa	Interstate Power & Light Co.	D-RPU-2009-0002	Electric	1/4/2010	6.84
32	Texas	Oncor Electric Delivery Co.	D-35717	Electric	8/31/2009	6.97
					Average	6.13

Source: Regulatory Research Associates via SNL website March 8, 2010

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR EXPEDITED APPROVAL TO ISSUE UP TO $250 MILLION OF DEBT SECURITIES (FILED OCTOBER 17, 2008)	)))))	PSC DOCKET NO. 08-335

ORDER NO. 7487

AND NOW, to-wit, this 21st day of November, 2008, the Applicant, Delmarva Power & Light Company ("Delmarva" or the "Applicant") having on October 17, 2008, filed an application pursuant to *26 Del. C. § 215* seeking to have the Commission approve the issuance of up to $250 million of first-term mortgage debt securities; and

WHEREAS, the Commission having examined the filed application and having made such investigation in connection therewith as deemed necessary under the circumstances; and

WHEREAS, the Commission having found the proposal of Applicant to issue the debt securities to be in accordance with law, for a proper purpose, and consistent with the public interest; and

WHEREAS, the Commission has previously entered, on the 5th day of November, 2008, an Order granting the Application but reserving certain conditions, which the Applicant has agreed to in connection with the issuance of that Order;

Now, therefore, **IT IS ORDERED**:

1. That the Application of Delmarva Power & Light Company filed with the Commission in this matter on October 17, 2008, is approved effective November 5, 2008.

2. That Delmarva Power & Light Company agrees that the proceeds from the debt issuance shall only be used in the following manner:

(a) One Hundred Fifty Million Dollars ($150,000,000) of the proceeds shall be used to reduce Delmarva Power & Light Company's portion of the $625 million utility credit facility;

(b) That $34 million of the proceeds shall be used to pay off Delmarva Power & Light Company's short-term commercial paper obligations; and

(c) The remainder of the $250 million proceeds ($66 million) shall be put in a money market account designated exclusively for the use by Delmarva Power & Light Company for its utility operations.

3. In addition, Delmarva Power & Light Company agrees to provide Commission Staff with the following quarterly reports beginning January 2009 through June 2009:

(a) Within twenty (20) days after the end of each quarter, a forecast of capital expenditure requirements;

b) Within twenty (20) days after the end of each quarter, a report of the sources and uses (cash flow) for its utility business from January 2009; and

(c) A Rate of Return Report.

4. In addition, Delmarva Power & Light Company agrees to quarterly meetings with Staff regarding financial conditions through June 2009, to be renewed if necessary.

5. That approval of this application by the Commission is not to be construed as approving the capitalization ratios that result for any purposes or procedures involving ratemaking, nor are the Commission's rules relative to proving the merits of any related issue hereby waived. Approval of this application shall not be construed as endorsing any ratemaking treatment of these transactions in any future rate case.

6. That nothing in this Order shall be construed as any guarantee, warranty, or representation by the State of Delaware or by any agency, commission, or department thereof, with respect to the securities to be issued pursuant to this Order.

7. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

/s/ Arnetta McRae
Chair

/s/ Dallas Winslow
Commissioner

/s/ Joann T. Conaway
Commissioner

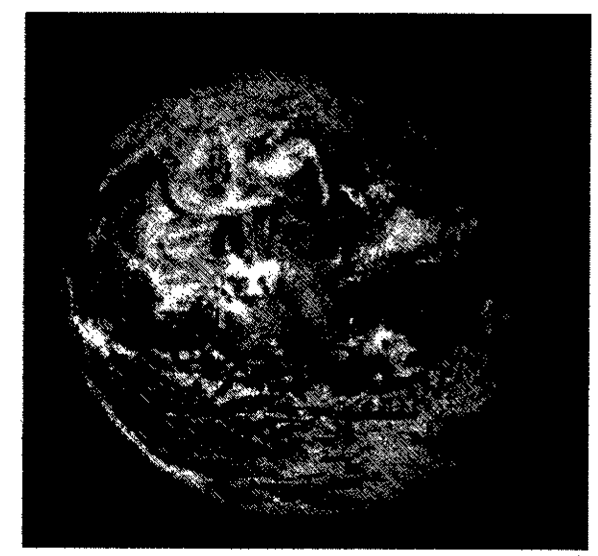
Commissioner

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Karen J. Nickerson
Secretary

Global Power Financing:
Annual Review for 2008 and Prospects for 2009



February 2009

Schedule AJK - 3

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Schedule AJK - 3

Electric Utility Debt Financing in 2008

Offer Date	Company	Issue	Structure	Amt ($MM)	Type	Moody/S&P Ratings	MW Call	Yield	Gross Spread	Reoffer Spread	Managers
12/22	FPL Group Capital (Reopening: 106.861%)	Debentures 7.885% due 12/15/2015	7 NC/L	$50	Holdco	A2/A-	T+50	6.627%	0.625%	+515	BAS/**CITI**/DB/MIZ//BNY/MITSU/ WELLS
12/19	Southern Connecticut Gas Group (144A)	First Mortgage Bonds 7.500% due 12/15/2018	10 NC/L	$50	Secured	A3(N)/A	T+50	7.500%	N/A	+539.8	BAS
12/19	Rochester Gas & Electric (144A)	First Mortgage Bonds 8.000% due 12/15/2033	25 NC/L	$150	Secured	A3(N)/A	T+50	8.000%	N/A	+545.7	BAS/JPM
12/10	Monongahela Power Co. (144A)	First Mortgage Bonds 7.950% due 12/15/2013	5 NC/L	$300	Secured	Baa2/BBB+	T+50	8.000%	N/A	+639.4	BAS/CS/SCOT//Commerz/JPM/ WED
12/09	FPL Group Capital	Debentures 7.885% due 12/15/2015	7 NC/L	$450	Holdco	A2/A-	T+50	7.875%	0.625%	+596.7	BAS/**CITI**/DB/MIZ//BNY/MITSU/ WELLS
12/08	Oklahoma Gas & Electric Co.	Senior Notes 8.250% due 1/15/2019	10 NC/L	$250	Unsecured	A2/BBB+(p)	T+50	8.250%	0.650%	+549.2	MIZ/RBS/UBS//**CITI**/WED/KEY/ US Bank
12/08	Wisconsin Electric Power Co.	Debentures 6.250% due 12/01/2015	7 NC/L	$250	Unsecured	A1/A-(p)	T+50	6.261%	0.625%	+425	BAS/GS/MS/SUN
12/04	Central Illinois Light Company	Senior Secured Notes 8.875% due 12/15/2013	5 NC/L	$150	Secured	Baa2(p)/BBB+	T+50	8.875%	0.600%	+734.9	BNP/GS
12/03	Potomac Electric Power Co.	First Mortgage Bonds 7.900% due 12/15/2038	30 NC/L	$250	Secured	Baa1/BBB+	T+50	7.900%	0.875%	+462.7	JPM/MS/SCOT/SUN/WACH
12/02	Consolidated Edison of NY	Debentures 7.125% due 12/01/2018	10 NC/L	$600	Unsecured	A1(n)/A-	T+50	7.176%	0.650%	+450	**CITI**/JPM/UBS//HSBC/LOOP/ Williams
12/01	Wisconsin Public Service Corp.	Senior Notes 6.375% due 12/01/2015	7 NC/L	$125	Secured	Aa3/A+(n)	T+50	6.375%	0.625%	+434.5	BAS/**CITI**/JPM/UBS
11/25	Dominion Resources, Inc.	Senior Notes 8.875% due 01/15/2019	10 Put 5	$600	Holdco	Baa2/A-	T+50	8.875%	0.600%	+678.9	BARC/JPM//CS/DB/KEY/BB&T/ SCOT/SUN/UCI
11/24	Public Service Electric & Gas	Secured Medium-Term Notes 6.330% due 11/01/2013	5 NC/L	$275	Secured	A3/A-	T+50	6.339%	0.600%	+412.5	BAS/MIZ/UBS//WED/Williams
11/18	Westar Energy	First Mortgage Bond 8.625% due 12/01/2018	10 NC/L	$300	Secured	Baa2/BBB	T+50	8.750%	0.650%	+521.3	DB/JPM//BNY/USB/BNP/Citi/CS
11/18	Southern California Gas Co	First Mortgage Bond 5.500% due 03/15/2014	5.5 NC/L	$250	Secured	A1/A+	T+50	5.535%	0.600%	+332	BNP/CALY/JPM//Blay/Cabrera
11/18	Delmarva Power & Light Co	First Mortgage Bond 6.400% due 12/01/2013	5 NC/L	$250	Secured	Baa1/A-	T+50	6.448%	0.600%	+420	BAS/JPM/MS//Key/Scot
11/17	Sempra Energy	Notes 8.900% due 11/15/2013	5 NC/L	$250	Holdco	Baa1/BBB+(N)	T+50	9.000%	0.600%	+670	BAS/DB/GS/RBSGC//BBVA/ Wedbush
11/17	Sempra Energy	Notes 9.800% due 11/15/2019	11 NC/L	$500	Holdco	Baa1/BBB+(N)	T+50	9.875%	0.650%	+618.9	BAS/DB/GS/RBSGC//BBVA/ Wedbush

Ratings legend: N: Review for downgrade; P: Review for upgrade; n: negative outlook; p: positive outlook.

Electric Utility Debt Financing in 2008 (continued)

Offer Date	Company	Issue	Structure	Amt ($MM)	Type	Moody/S&P Ratings	MW Call	Yield	Gross Spread	Reoffer Spread	Managers
11/14	Southwestern Public Services	Senior Notes 8.750% due 12/01/2018	10 NC/L	$250	Unsecured	Baa1/BBB+	T+50	8.875%	0.650%	+515.5	JPM//Wells
11/14	Mississippi Power Company	Senior Notes 6.000% due 11/15/2013	5 NC/L	$50	Unsecured	A1/A	T+50	6.067%	0.600%	+375	JPM
11/14	Alabama Power Company	Senior Notes 5.800% due 11/15/2013	5 NC/L	$250	Unsecured	A2/A	T+50	5.834%	0.600%	+355	BNY/DB/JPM//HBSC/Scot
11/13	Central Hudson Gas & Electric	Senior Medium-Term Notes 6.854% due 10/31/2013	5 NC/L	$30	Unsecured	A2(n)/A	–	6.854%	0.600%	+450	BAS/JPM//Key
11/13	Cleveland Electric Illuminating Co	First Mortgage Bonds 8.875% due 11/15/2018	10 NC/L	$300	Secured	Baa2/BBB+	T+50	8.875%	0.650%	+513.6	BARC/CS/RBSGC/MS/SCOT// Mizuho/Key
11/13	Pacific Gas & Electric Co.	Senior Notes 6.250% due 12/01/2013	5 NC/L	$400	Unsecured	A3/BBB+	T+50	6.424%	0.600%	+410	JPM/MS/RBSGC//Loop/WFC/ Williams
11/13	Pacific Gas & Electric Co. (Reopening: 104.475%)	Senior Notes 8.250% due 10/15/2018	10 NC/L	$200	Unsecured	A3/BBB+	T+50	7.589%	0.650%	+395	JPM/MS/RBSGC//Loop/WFC/ Williams
11/12	Georgia Power	Senior Notes 6.000% due 11/01/2013	5 NC/L	$400	Unsecured	A2/A	T+50	6.016%	0.600%	+360	BAS/BARC/GS//Mitsu/RBSGC
11/12	Georgia Power	Senior Notes 8.200% due 11/01/2048	40 NC/5	$100	Unsecured	A2/A	–	8.200%	3.150%	NA	**CITI**/MS/UBS
11/12	Duke Energy Carolinas	F&R Mortgage Bonds 5.750% due 11/15/2013	5 NC/L	$400	Secured	A2/A(p)	T+50	5.804%	0.600%	+345	BARC/**CITI**/CS//BBVA/BNP/Key/ Mitsu/Cabrera/Wells
11/12	Duke Energy Carolinas	F&R Mortgage Bonds 7.000% due 11/15/2018	10 NC/L	$500	Secured	A2/A(p)	T+50	7.041%	0.650%	+340	BARC/**CITI**/CS//BBVA/BNP/Key/ Mitsubishi/Cabrera/Wells
11/06	Atlantic City Electric Co.	First Mortgage Bonds 7.750% due 11/15/2018	10 NC/L	$250	Secured	A3(n)/A-	T+50	7.817%	0.650%	+412.5	JPM/MS/RBS//SCO
11/03	Virginia Electric and Power Co.	Senior Notes 8.875% due 11/15/2038	30 NC/L	$700	Unsecured	Baa1/A-	T+50	8.875%	0.875%	+456.3	**CITI**/GS/RBS//DB/UBS/BNY/ KBC/SCO/Williams
10/20	Illinois Power (144A w/RR)	Senior Secured Notes 9.750% due 11/15/2018	10 NC/L	$400	Secured	Baa3(p)/BBB	T+50	10.000%	0.650%	+609.3	BARC/JPM/UBS
10/16	Pacific Gas & Electric Co.	Senior Notes 8.250% due 10/15/2018	10 NC/L	$600	Unsecured	A3/BBB+	T+50	8.500%	0.650%	+455.7	BAC/**CITI**/DB//BNY/Cabrera/ Siebert/USBank
10/16	Ohio Edison Company	First Mortgage Bonds 8.250% due 10/15/2018	10 NC/L	$25	Secured	Baa1/BBB+	T+50	8.500%	0.875%	+456.3	CS/JPM/MS/BARC/RBS/SCO// Miz/SUN
10/15	Ohio Edison Company	First Mortgage Bonds 8.250% due 10/15/2038	30 NC/L	$275	Secured	Baa1/BBB+	T+50	8.500%	0.875%	+427.3	CS/JPM/MS/BARC/RBS/SCO// Miz/SUN
10/14	PPL Electric Utilities	Senior Secured Bonds 7.125% due 11/30/2013	5 NC/L	$375 $25	Secured	A3/A-	T+50	7.142% 7.100%	0.600%	+412.5	BARC/BNP/Laz/SCO//BNY/ PNC/USB

Ratings legend: N: Review for downgrade; P: Review for upgrade; n: negative outlook; p: positive outlook.

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Electric Utility Debt Financing in 2008 (continued)

Offer Date	Company	Issue	Structure	Amt ($MM)	Type	Moody/S&P Ratings	MW Call	Yield	Gross Spread	Reoffer Spread	Managers
10/07	Southern California Edison Co.	F&R Mortgage Bonds 5.750% due 03/15/2014	5.5 NC/L	$500	Secured	A2/A	T+50	5.862%	0.600%	+340	BAS/**CITI**/DB/JPM//UBS/ Cabrera/SL Hare
10/07	The Detroit Edison Co.	Senior Notes 6.400% due 10/01/2013	5 NC/L	$250	Secured	A3/A-	T+50	6.462%	0.600%	+400	BARC/**CITI**/RBS/SCO
10/01	Interstate Power & Light	Senior Debentures 7.250% due 10/01/2018	10 NC/L	$250	Unsecured	A3/BBB+	T+50	7.375%	0.600%	+358.2	BARC/**CITI**//JPM/BNY Mellon/Laz/RBS
10/01	Wisconsin Power & Light	Debentures 7.600% due 10/01/2038	30 NC/L	$250	Unsecured	A2/A-	T+50	7.750%	0.650%	+349.9	BARC/**CITI**/JPM//BNY Mellon/Laz/RBS
09/25	PECO Energy Company	F&R Mortgage Bonds 5.600% due 10/15/2013	5 NC/L	$300	Secured	A2/A	T+45	5.664%	0.600%	+262.5	BAC/MS/SCO//BNP/Cabrera/ KEY/LAZ/RBS/SUN
09/25	South Carolina Electric & Gas	First Mortgage Bonds 6.500% due 11/01/2018	10 NC./L	$300	Secured	A2/A-(n)	T+40	6.500%	0.650%	+265	BAC/CS/WB
09/25	Wisconsin Electric Power Co.	Debentures 6.000% due 04/01/2014	5.5 NC/L	$300	Unsecured	A1/A-(p)	T+45	6.042%	0.600%	+300	**CITI**/WACH//Wells/SUN
09/08	Consumers Energy Company	First Mortgage Bonds 6.125% due 03/15/2019	10.5 NC/L	$350	Secured	Baa1/BBB	T+45	6.134%	0.650%	+245	**CITI**/JPM/UBS/WACH//BAS/CS/ SUN/DAIWA/FTS/Huntington
09/04	Ohio Power Company	Senior Notes 5.750% due 09/01/2013	5 NC/L	$250	Unsecured	A3(n)/BBB	T+45	5.769%	0.600%	+290	Calyon/**CITI**/UBS//Key
09/04	Oklahoma Gas and Electric Co.	Senior Notes 6.350% due 09/01/2018	10 NC/L	$250	Unsecured	A2/BBB+	T+45	6.399%	0.650%	+275	UBS/WACH
09/03	Oncor Electric Delivery Co.	Senior Secured Bonds 5.950% due 09/01/2013	5 NC/L	$650	Secured	Baa3/BBB+	T+50	5.982%	0.600%	+305	CS/GS/LEH/JPM//BOA/BARC/ Calyon/**CITI**/DBS/KKR/MS
09/03	Oncor Electric Delivery Co.	Senior Secured Bonds 6.800% due 09/01/2018	10 NC/L	$550	Secured	Baa3/BBB+	T+50	6.815%	0.650%	+312.5	CS/GS/LEH/JPM//BOA/BARC/ Calyon/**CITI**/DBS/KKR/MS
09/03	Oncor Electric Delivery Co.	Senior Secured Bonds 7.500% due 09/01/2038	30 NC/L	$300	Secured	Baa3/BBB+	T+50	7.526%	0.875%	+320	CS/GS/LEH/JPM//BOA/BARC/ Calyon/**CITI**/DBS/KKR/MS
09/03	Northern States Power-Wisconsin	First Mortgage Bonds 6.375% due 09/01/2038	30 NC/L	$200	Secured	A2/A	T+35	6.433%	0.875%	+210	BOA/BNY//Key
08/27	Sierra Pacific Power Co.	G&R Mortgage Notes 5.450% due 09/01/2013	5 NC/L	$250	Secured	Baa3/BBB	T+40	5.494%	0.600%	+247	CS/LEH//SocGen/WF
08/20	Orange and Rockland Utilities (144A)	Debentures 6.150% due 09/01/2018	10 NC/L	$50	Unsecured	A2(n)/A-	T+40	6.174%	0.650%	+237.5	**CITI**
08/15	Duke Energy Indiana	First Mortgage Bonds 6.350% due 08/15/2038	30 NC/L	$400	Secured	A3/A	T+35	6.374%	0.875%	+193	DBS/ML/UBS//BNP/BNY/Key/ MUFJ/SunT/WF/Williams/Blay
08/13	Southern Co.	Floating Rate Senior Notes 3mL+70 bp due 08/20/2010	2 NC/L	$600	Holdco	A3/A-	–	3mL+70 bp	0.250%	–	JPM/LEH
08/11	Southern California Edison Co.	F&R Mortgage Bonds 5.500% due 08/15/2018	10 NC/L	$400	Secured	A2/A	T+25	5.575%	0.650%	+155	CS/RBS/ ML//BOA/DBS/GS/ CastleOak/Ramirez

Ratings legend: N: Review for downgrade; P: Review for upgrade; n: negative outlook; p: positive outlook.

Electric Utility Debt Financing in 2008 (continued)

Offer Date	Company	Issue	Structure	Amt ($MM)	Type	Moody/S&P Ratings	MW Call	Yield	Gross Spread	Reoffer Spread	Managers
08/11	Entergy Louisiana, LLC	First Mortgage Bonds 6.500% due 09/01/2018	10 NC/L	$300	Secured	Baa1/A-	T+40	6.509%	0.650%	+248	Key/LEH/WACH//Cayon/**CITI**/LAZ
08/06	Public Service Company of Colorado	First Mortgage Bonds 5.800% due 08/01/2018	10 NC/L	$300	Secured	A3/A-	T+25	5.820%	0.650%	+175	GS/LEH//BMO/Mitsubishi/SCO
08/06	Public Service Company of Colorado	First Mortgage Bonds 6.500% due 08/01/2038	30 NC/L	$300	Secured	A3/A-	T+25	6.531%	0.875%	+185	GS/LEH//BMO/Mitsubishi/SCO
07/25	Nevada Power Company	G&R Mortgage Notes 6.500% due 08/01/2018	10 NC/L	$500	Secured	Baa3/BBB	T+40	6.545%	0.650%	+245	BOA/BARC/**CITI**//PJ/SCO/Wedbush/WILL
07/14	PacifiCorp	First Mortgage Bonds 5.650% due 07/15/2018	10 NC/L	$500	Secured	A3/A-	T+30	5.674%	0.650%	+180	LEH/JPM/RBS/WACH//SCO/BARC/BNP/GS/BOA/**CITI**/CS/PJ/SunT/Wedbush/WF
07/14	PacifiCorp	First Mortgage Bonds 6.350% due 07/15/2038	30 NC/L	$300	Secured	A3/A-	T+30	6.392%	0.875%	+192	LEH/JPM/RBS/WACH//SCO/BARC/BNP/GS/BOA/**CITI**/CS/PJ/SunT/Wedbush/WF
07/14	Entergy Arkansas, Inc.	First Mortgage Bonds 5.400% due 08/01/2018	5 NC/L	$300	Secured	Baa1/A-	T+35	5.401%	0.600%	+223	BNY/BARC/JPM//KEY/SCO/Stephens
07/07	Idaho Power Company	First Mortgage Bonds 6.025% due 07/15/2018	10 NC/L	$120	Secured	A3(n)/A	T+35	6.025%	0.625%	+215	BAS/JPM/WACH//KEY//RBS/Wedbush/Wells
06/23	Baltimore Gas and Electric Co.	Notes 6.125% due 07/01/2013	5 NC/L	$400	Unsecured	Baa2/BBB+(n)	T+35	6.127%	0.600%	+250	BAS/JPM/RBS//BARC/DB/SCO
06/17	South Carolina Electric & Gas (Reopening: 95.122%)	First Mortgage Bonds 6.050% due 01/15/2038	30 NC/L	$110	Secured	A2/A-(n)	T+30	6.420%	0.875%	+165	WACH
06/12	Dominion Resources, Inc.	Floating Rate Senior Notes 3mL+105 bp due 06/17/2010	2 NC/L	$300	Holdco	Baa2/A-	–	3mL+105 bp	0.250%	–	**CITI**/BARC/JPM/ML//CS/KEY/UBS/BNP/LAZ/MIZ/SCO
06/12	Dominion Resources, Inc.	Senior Notes 6.400% due 06/15/2018	10 NC/L	$500	Holdco	Baa2/A-	T+35	6.413%	0.650%	+220	**CITI**/BARC/JPM/ML//CS/KEY/UBS/BNP/LAZ/MIZ/SCO
06/12	Dominion Resources, Inc.	Senior Notes 7.000% due 06/15/2038	30 NC/L	$400	Holdco	Baa2/A-	T+40	7.062%	0.875%	+230	**CITI**/BARC/JPM/ML//CS/KEY/UBS/BNP/LAZ/MIZ/SCO
06/12	Union Electric (d/b/a AmerenUE)	Senior Secured Notes 6.700% due 02/01/2019	10.6 NC/L	$450	Secured	Baa1/BBB	T+40	6.737%	0.650%	+253	BARC/BNY/JPM//BNP/LAZ
06/11	Duke Energy Corp.	Senior Notes 5.650% due 06/15/2013	5 NC/L	$250	Holdco	Baa2/BBB+	T+40	5.696%	0.600%	+220	CS/GS/LEH//**CITI**/LAZ/SCO/SUN
06/11	Duke Energy Corp.	Senior Notes 6.250% due 06/15/2018	10 NC/L	$250	Holdco	Baa2/BBB+	T+40	6.285%	0.650%	+220	CS/GS/LEH//**CITI**/LAZ/SCO/SUN
06/11	Florida Power Corp. d/b/a Progress Energy Florida, Inc.	First Mortgage Bonds 5.650% due 06/15/2018	10 NC/L	$500	Secured	A2/A-	T+30	5.698%	0.650%	+163	**CITI**/BARC/RBS//LAZ/MS/SUN/BAS/DB/GS/BNY/UBS/BBT
06/11	Florida Power Corp. d/b/a Progress Energy Florida, Inc.	First Mortgage Bonds 6.400% due 06/15/2038	30 NC/L	$1,000	Secured	A2/A-	T+30	6.432%	0.875%	+175	**CITI**/BARC/RBS//LAZ/MS/SUN/BAS/DB/GS/BNY/UBS/BBT

Ratings legend: N: Review for downgrade; P: Review for upgrade; n: negative outlook; p: positive outlook.c

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Electric Utility Debt Financing in 2008 (continued)

Offer Date	Company	Issue	Structure	Amt ($MM)	Type	Moody/S&P Ratings	MW Call	Yield	Gross Spread	Reoffer Spread	Managers
06/11	FPL Group Capital Inc	Floating Rate Debentures 3mL+88 bp due 06/17/2011	3 NC/L	$250	Holdco	A2/A-	–	3mL+88 bp	0.350%	NA	CS/BARC/LEH/RBS//LAZ/MK
06/11	FPL Group Capital Inc	Debentures 5.350% due 06/15/2013	5 NC/L	$250	Holdco	A2/A-	T+30	5.352%	0.600%	+188	CS/BARC/LEH/RBS//LAZ/MK
06/09	Sempra Energy	Notes 6.150% due 06/15/2018	10 NC/L	$500	Holdco	Baa1/BBB+	T+35	6.155%	0.650%	+215	**CITI**/JPM/MS//HSBC/LAZ/SG/ WILL
06/04	Southwestern Electric Power Co.	Senior Notes 6.450% due 01/15/2019	10.6 NC/L	$400	Unsecured	Baa1(n)/BBB	T+50	6.465%	0.650%	+255	BNP/CS/JPM//RBS
06/04	The Detroit Edison Company	Senior Notes 5.600% due 06/15/2018	10 NC/L	$300	Secured	A3/A-	T+30	5.619%	0.650%	+170	**CITI**/KEY//BNY/UBS
06/02	Northeast Utilities	Senior Notes 5.650% due 06/01/2013	5 NC/L	$250	Holdco	Baa2/BBB-	T+35	5.659%	0.600%	+240	JPM/LEH//BAS/BNY/Wells
05/29	El Paso Electric Company	Senior Notes 7.500% due 06/01/2038	30 NC/L	$150	Unsecured	Baa2/BBB	T+50	7.574%	0.875%	+280	CS
05/28	Cleco Power LLC	Notes 6.650% due 06/15/2018	10 NC/L	$250	Unsecured	Baa1/BBB	T+40	6.699%	0.650%	+268	BNY/CALY/KEY
05/27	Georgia Power Company	Senior Notes 5.400% due 06/01/2018	10 NC/L	$250	Unsecured	A2/A	T+25	5.459%	0.650%	+155	BAS/MS//DB/HSBC/SCO/ WILL
05/19	Public Service Co. of New Hampshire	First Mortgage Bonds 6.000% due 05/01/2018	10 NC/L	$110	Secured	Baa1/BBB+	T+35	6.033%	0.650%	+215	BARC/BNY//TD/Wedbush
05/19	The Connecticut Light and Power Company	F&R Mortgage Bonds 5.650% due 05/01/2018	10 NC/L	$300	Secured	A3/BBB+	T+30	5.683%	0.650%	+180	BARC/**CITI**/WACH//BAS/TD/ WILL/Wedbush
05/15	NiSource Finance Corp. (Reopening: 100.378%)	Notes 6.150% due 03/01/2013	4.8 NC/L	$200	Holdco	Baa3(n)/BBB-	T+35	6.055%	0.600%	+292	BAS/JPM/WACH//BMO/KEY/ Commerz/MIZ
05/15	NiSource Finance Corp.	Notes 6.800% due 01/15/2019	10.7 NC/L	$500	Holdco	Baa3(n)/BBB-	T+50	6.834%	0.650%	+297	BAS/JPM/WACH//BMO/KEY/ Commerz/MIZ
05/13	The Empire District Electric Co.	First Mortgage Bonds 6.375% due 06/01/2018	10 NC/L	$90	Secured	Baa1(n)/BBB+	T+37.5	6.382%	0.650%	+248	UBS
05/13	Columbus Southern Power Co.	Senior Notes 6.050% due 05/01/2018	10 NC/L	$350	Unsecured	A3/BBB	T+35	6.081%	0.650%	+220	BNY/GS/LEH//SUN/NatCity/ FITB
05/13	Tampa Electric Company	Notes 6.100% due 05/15/2018	10 NC/L	$150	Unsecured	Baa2(p)/BBB-	T+35	6.100%	0.650%	+225	BNP/MS//FITB/MK/SG/ Wedbush
05/12	Entergy Gulf States Louisiana (144A w/RR)	First Mortgage Bonds 6.000% due 05/01/2018	10 NC/L	$375	Secured	Baa3(p)/BBB+(n)	T+40	6.060%	NA	+230	MS/MIZ/RBS//CS/KEY/Wells
05/09	PNM Resources	Senior Notes 9.250% due 05/15/2015	7 NC/L	$350	Holdco	Ba2(N)/BB-	–	9.250%	1.500%	+588	LEH/BAS/ML/MS/WACH//**CITI** DB/JPM/RBC/Wedbush
05/08	Public Service Co. of New Mexico	Senior Unsecured Notes 7.950% due 05/15/2018	10 NC/L	$350	Unsecured	Baa3(N)/BB+	T+60	7.950%	1.000%	+418.5	LEH/ML/**CITI**/DB/MS/RBC/ WACH//BAS/JPM/UBOC/CS

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Electric Utility Debt Financing in 2008 (continued)

Offer Date	Company	Issue	Structure	Amt ($MM)	Type	Moody/S&P Ratings	MW Call	Yield	Gross Spread	Reoffer Spread	Managers
05/08	Alabama Power Company	Senior Notes 6.125% due 05/15/2038	30 NC/L	$300	Unsecured	A2/A	T+25	6.144%	0.875%	+155	**CITI**/LEH//CALY/LAZ/MIZ/TOUS
05/01	CenterPoint Energy Inc.	Senior Notes 6.500% due 05/01/2018	10 NC/L	$300	Holdco	Ba1/BBB-	T+45	6.571%	0.650%	+282	LEH/RBS/WACH//BARC/HSBC/LAZ/RBC/SUN/Wells
04/15	E.ON International Finance BV (144A w/RR)	Notes 5.800% due 04/30/2018	10 NC/L	$2,000	Holdco	A2/A	T+35	5.856%	NA	+225	BAS/DB/GS/JPM
04/15	E.ON International Finance BV (144A w/RR)	Notes 6.650% due 04/30/2038	30 NC/L	$1,000	Holdco	A2/A	T+35	6.683%	NA	+225	BAS/DB/GS/JPM
04/14	Virginia Electric and Power Co.	Senior Notes 5.400% due 04/30/2018	10 NC/L	$600	Unsecured	Baa1/A-	T+35	5.429%	0.650%	+195	BARC/RBS/WACH//BAS/DB/BNP/BNY/MIZ/SCO
04/11	Korea Southern Power Co. (144A w/RR)	Senior Notes 5.375% due 04/18/2013	5 NC/L	$300	Unsecured	A1/A-	–	5.465%	NA	+289.6	ABN/**CITI**/DB
04/10	Public Service Electric and Gas	Secured Medium-Term Notes 5.300% due 05/01/2018	10 NC/L	$400	Secured	A3(n)/A-	T+30	5.310%	0.600%	+178	BNP/RBS/SCO
04/09	Duke Energy Carolinas	F&R Mortgage Bonds 5.100% due 04/15/2018	10 NC/L	$300	Secured	A2/A	T+30	5.119%	0.650%	+165	BAS/BARC/RBS//BNP/BNY/LAZ/KEY/SUN
04/09	Duke Energy Carolinas	F&R Mortgage Bonds 6.050% due 04/15/2038	30 NC/L	$600	Secured	A2/A	T+30	6.070%	0.875%	+177	BAS/BARC/RBS//BNP/BNY/LAZ/KEY/SUN
04/02	IPALCO Enterprises (144A)	Senior Secured Notes 7.250% due 04/01/2016	8 NC/L	$400	Secured	Ba1/BB	T+50	7.500%	NA	+412	ML/LEH//BAS/JPM/SCO
04/01	Con Edison of NY	Debentures 5.850% due 04/01/2018	10 NC/L	$600	Unsecured	A1(n)/A-	T+35	5.856%	0.650%	+230	BNY/ML/RBS//BLAY/COM/KEY/LAZ/MIZ/RAM/Wells
04/01	Con Edison of NY	Debentures 6.750% due 04/01/2038	30 NC/L	$600	Unsecured	A1(n)/A-	T+35	6.773%	0.875%	+240	BNY/ML/RBS//BLAY/COM/KEY/LAZ/MIZ/RAM/Wells
04/01	Union Electric (d/b/a AmerenUE)	Senior Secured Notes 6.000% due 04/01/2018	10 NC/L	$250	Secured	A3/BBB	T+40	6.041%	0.650%	+250	GS/JPM//LAZ/MK
04/01	Illinois Power (144A w/RR)	Senior Secured Notes 6.250% due 04/01/2018	10 NC/L	$337	Secured	Baa3(p)/BBB-(p)	T+45	6.282%	0.650%	+275	BARC/BNP/LEH//FITB/USB
03/27	Avista Corp.	First Mortgage Bonds 5.950% due 06/01/2018	10 NC/L	$250	Secured	Baa2/BBB+	T+37.5	5.992%	0.650%	+250	UBS/BNY/GS//BAS/KEY/Wed/Wells
03/25	MidAmerican Energy Holdings (144A w/RR)	Senior Notes 5.750% due 04/01/2018	10 NC/L	$650	Holdco	Baa1/BBB+	T+35	5.774%	0.550%	+225	LEH/BARC/RBS/WACH//BNP/**CITI**/SUN/UBOC/Wed/Wells
03/25	International Transmission Co. (144A w/RR)	First Mortgage Bonds 5.750% due 04/01/2018	10 NC/L	$100	Secured	A3(p)/A-(p)	T+35	5.765%	NA	+225	BAS
03/24	Potomac Electric Power Company (Reopening: 96.917%)	Senior Notes 6.500% due 11/15/2037	29.7 NC/L	$250	Secured	Baa1/BBB+	T+35	6.741%	0.875%	+245	**CITI**/JPM//SUN/BNY/MIZ/WACH/WILL

Ratings legend: N: Review for downgrade; P: Review for upgrade; n: negative outlook; p: positive outlook.

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Electric Utility Debt Financing in 2008 (continued)

Offer Date	Company	Issue	Structure	Amt ($MM)	Type	Moody/S&P Ratings	MW Call	Yield	Gross Spread	Reoffer Spread	Managers
03/19	MidAmerican Energy	Senior Notes 5.300% due 03/15/2018	10 NC/L	$350	Unsecured	A2/A-	T+30	5.345%	0.650%	+190	LEH/RBS//BARC/UBS/WACH
03/19	Appalachian Power	Senior Notes 7.000% due 04/15/2038	30 NC/L	$500	Unsecured	Baa2(n)/BBB	T+50	7.053%	0.875%	+280	BARC/JPM/RBS//CALY/LAZ/ MIZ/UBS
03/19	Commonwealth Edison	First Mortgage Bonds 5.800% due 03/15/2018	10 NC/L	$700	Secured	Baa2/BBB(p)	T+40	5.826%	0.650%	+245	BAS/BARC/RBS//BNP/JPM/ SCO/SUN/Loop/SBK
03/12	Georgia Power	Floating Rate Senior Notes 3mL+55 bp due 03/17/2010	2 NC/L	$250	Unsecured	A2/A	--	3mL+55	0.250%	NA	JPM/WACH//BAS/SUN
03/11	Northern States Power (Minn)	First Mortgage Bonds 5.250% due 03/01/2018	10 NC/L	$500	Secured	A2/A	T+25	5.290%	0.650%	+170	BARC/JPM//RBS/Wells
03/10	Consumers Energy	First Mortgage Bonds 5.650% due 09/15/2018	10.5 NC/L	$250	Secured	Baa1/BBB	T+45	5.699%	0.650%	+225	BARC/BNP/SCO//RBS/WED/ Comerica/Wells/WILL
03/10	Carolina Power & Light d/b/a Progress Energy Carolinas	First Mortgage Bonds 6.300% due 04/01/2038	30 NC/L	$325	Secured	A2/A-	T+30	6.313%	0.875%	+185	JPM/WACH//BNY/CAB/GS/ LAZ/MS/SUN
03/06	Kansas City Power & Light Co.	Notes 6.375% due 03/01/2018	10 NC/L	$350	Unsecured	A3(n)/BBB(N)	T+45	6.375%	0.650%	+275.6	JPM/BAS//BNP/WACH/KEY/ Ram/SCO
03/05	Vectren Utility Holdings, Inc.	Senior Monthly Notes 6.250% due 04/01/2039	31 NC/5	$125	Unsecured	Baa1/A-	--	6.250%	3.150%	+176	EdJ
03/05	SCANA Corp.	Medium Term Notes 6.250% due 04/01/2020	12 NC/L	$250	Holdco	Baa1/BBB+(n)	T+40	6.291%	0.650%	+260	BAS/BBT/UBS//Wells
03/05	Public Service Electric and Gas	F&R Mortgage Bonds 3mL+87.5 due 03/12/2010	2 NC/6mo	$300	Secured	A3(n)/A-	--	3mL+87.5	0.250%	NA	BARC//MIZ/UBS
02/26	Pacific Gas and Electric (Reopening: 101.550%)	Senior Notes 5.625% due 11/30/2017	10 NC/L	$200	Unsecured	A3/BBB+	T+30	5.417%	0.650%	+155	GS/LEH/UBS//Blay/CastleOak /MIZ
02/26	Pacific Gas and Electric	Senior Notes 6.350% due 02/15/2038	30 NC/L	$400	Unsecured	A3/BBB+	T+30	6.361%	0.875%	+170	GS/LEH/UBS//Blay/CastleOak /MIZ
02/25	PECO Energy	F&R Mortgage Bonds 5.350% due 03/01/2018	10 NC/L	$500	Secured	A2/A	T+25	5.372%	0.650%	+147	GS/LEH/BNY(passive)//MIZ/R BS/WILL/Toussaint
01/28	Oklahoma Gas and Electric	Senior Notes 6.450% due 02/01/2038	30 NC/L	$200	Unsecured	A2/BBB+	T+35	6.491%	0.875%	+220	BNY/RBS//KEY/MIZ/Piper/ UMB/Wed
01/15	ITC Midwest LLC (144A)	First Mortgage Bonds 6.150% due 01/31/2038	30 NC/L	$175	Secured	A3(p)/A-(p)	T+30	6.172%	NA	+187.5	CS/LEH//BAS/Comerica/JPM
01/15	ITC Holdings Corp (144A)	Senior Notes 6.050% due 01/31/2018	10 NC/L	$385	Holdco	Baa3(p)/BBB-(p)	T+35	6.105%	NA	+240	CS/LEH//BAS/Comerica/JPM

Ratings legend: N: Review for downgrade; P: Review for upgrade; n: negative outlook; p: positive outlook.

Electric Utility Debt Financing in 2008 (continued)

Offer Date	Company	Issue	Structure	Amt ($MM)	Type	Moody/S&P Ratings	MW Call	Yield	Gross Spread	Reoffer Spread	Managers
01/14	Southern California Edison	F&R Mortgage Bonds 5.950% due 02/01/2038	30 NC/L	$600	Secured	A2/A	T+25	5.983%	0.875%	+160	BNY/**CITI**/LEH/JPM//WED/ Wells/BLAY/CAB
01/10	Florida Power & Light	First Mortgage Bonds 5.950% due 02/01/2038	30 NC/L	$600	Secured	Aa3/A	T+25	5.989%	0.875%	+158	CALY/**CITI**/MS/WACH//BNY/ DB/HSBC/KEY/LAZ/Wells
01/09	Commonwealth Edison	First Mortgage Bonds 6.450% due 01/15/2038	30 NC/L	$450	Secured	Baa2/BBB(p)	T+35	6.473%	0.875%	+215	DB/ML/UBS//BNP/SCO/SUN/ UBOC
01/08	Alabama Power (Reopening: 100.542%)	Senior Notes 4.850% due 12/15/2012	5 NC/L	$300	Unsecured	A2/A	T+25	4.724%	0.600%	+153	BARC/JPM//BNY/MK/Ram/ RBS
01/07	South Carolina Electric & Gas	First Mortgage Bonds 6.050% due 01/15/2038	30 NC/L	$250	Secured	A2/A-(n)	T+30	6.057%	0.875%	+172	BNY/CS/MS//MIZ
01/07	Duke Energy Carolinas	F&R Mortgage Bonds 5.250% due 01/15/2018	10 NC/L	$400	Secured	A2(p)/A	T+25	5.294%	0.650%	+145	JPM/WACH//CS/DB/RBS/LEH
01/07	Duke Energy Carolinas	F&R Mortgage Bonds 6.000% due 01/15/2038	30 NC/L	$500	Secured	A2(p)/A	T+30	6.005%	0.875%	+165	JPM/WACH//CS/DB/RBS/LEH

Ratings legend: N: Review for downgrade; P: Review for upgrade; n: negative outlook; p: positive outlook.

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Moody's Global
Infrastructure

Special Comment

October 2008

U.S. Investor-Owned Electric Utilities

Somewhat Insulated But Not Immune from Credit Market Stress, Economic Weakness

Table of Contents:

Analyst Contacts:

New York 1.212.553.1653

Jim Hempstead 1.212.553.4318
Senior Vice President

Mike Haggarty 1.212.553.7172
Vice President / Senior Credit Officer

Mihoko Manabe 1.212.553.1942
Vice President / Senior Credit Officer

Allan McLean 1.416.214.3852
Vice President / Senior Credit Officer

A.J. Sabatelle 1.212.553.8756
Vice President / Senior Credit Officer

Kevin Rose 1.212.553.0389
Vice President / Senior Analyst

Laura Schumacher 1.212.553.3853
Vice President / Senior Analyst

Scott Solomon 1.212.553.4358
Vice President / Senior Analyst

Ed Tan 1.212.553.1097
Vice President / Senior Analyst

Jim O'Shaughnessy 1.212.553.1607
Analyst

Ryan Wobbrock 1.212.553.7104
Associate Analyst

W. Larry Hess 1.212.553.3837
Team Managing Director

- Fundamental industry outlook for U.S. electric utilities remains stable
- Liquidity appears adequate over near-term, but for most utilities only with continued unfettered access to capital markets
- Perception of increased investor interest across the entire capital structure – possibly indicating a defensive flight to quality – viewed positively given utilities' long-term financing requirements
- Proactive actions to bolster liquidity availability and strengthen balance sheet viewed as prudent given current economic and financial market conditions
- Reluctance or resistance by some utility Boards of Directors to issue common equity, given current economic and financial market conditions, viewed negatively – especially if utility encounters some form of distress over near- to intermediate-term horizon
- Continued support from regulators provides reasonable recovery of prudently incurred costs and investments with a reasonable return in a timely manner
- Financial profile continues to exhibit stability, but some modest deterioration seen in selected credit metrics

Moody's Investors Service

Overview

With credit markets in flux and the U.S. economic downturn gaining momentum, the nation's investor-owned electric utility sector is in an enviable position compared with many other industries. The business model associated with the sector is relatively recession resistant, since the primary fuel for every functioning economy is electricity. As a result, the sector tends to enjoy widespread support from its legislative and regulatory authorities, who, in our opinion, prefer to regulate financially healthy companies. This support is evidenced by the relatively stable financial profile that the sector has produced over the past several years.

Nevertheless, the sector is not immune to the current tumultuous environment in the broad, macro markets, nor is it completely immune from the effects of a protracted recessionary environment. For example, the sector is an enormous consumer of natural resource commodities (including uranium, coal and natural gas), which have been exhibiting a significant amount of pricing volatility. Roughly half the sector's volumes represent commercial and industrial sales, which could be negatively impacted by a protracted recession, and there are risks associated with increasing bad debt expenses.

In the current environment, our primary concern relates to consumers who may reach a tolerance point to absorb annual rate increases. If this tolerance point is reached, consumers may seek some form of a bailout from their elected officials and regulators, thereby creating incremental pressure to limit rate relief and / or defer costs or investments. We incorporate a view that the sector is attempting to request financial relief more frequently, with lower average annual rate increases, in an effort to limit the potential risk of future rate shock.

A large portion of rate increases relate to costs that are currently being "tracked," or passed through directly to consumers. As a result, a significant portion of the annual rate increases are beyond management's control (i.e., fuel commodities) and could be subjected to longer-term recoveries by regulators. These pass-through expenses (which typically do not include an authorized margin component) could increasingly be viewed by regulators as materially lowering the overall business and operating risk profile of a utility, thereby resulting in lower authorized equity returns.

Furthermore, we note that many utility business plans incorporate a view that material capital expenditures are necessary over the next few years to support, refurbish and/or fortify the existing (aged) infrastructure; that environmental costs, which are a component of the infrastructure, are also increasing due to increasingly stringent mandates; and that costs associated with an aging workforce are growing at an increasing rate. A protracted recessionary environment may mitigate, but will not eliminate, these challenges.

Until recently, the sector was sharing some concerns over its ability to attract enough capital into their businesses to finance these infrastructure investment needs. A recession-induced slowdown could provide improved reserve margins over the near term, and offer the sector a chance to "catch up" with infrastructure improvements. Given current economic and financial market conditions, an investor "flight to quality" for the sector could be perfect timing for many utilities.

Liquidity adequate near term, assuming ongoing market access

Near-term liquidity is by far the most important factor for near-term ratings stability (for purposes of discussing a company's liquidity, near-term is defined as approximately 12 months). The utility sector appears to be adequately positioned with respect to its overall, near-term liquidity profile, but this incorporates an assumption that many utilities will continue to have unfettered access to the capital markets.

In general, the sector's liquidity can be characterized as having relatively low cash balances. However, utilities typically maintain a significant amount of availability under their bank credit facilities. The majority of these bank credit facilities were initially multi-year, fully syndicated facilities and they generally have a few more years before their scheduled expiration dates. The typical credit facility also has relatively modest financial restrictions (covenants) incorporated into the credit agreement and there usually is no material adverse change language regarding on-going drawings. This is a critical point to any liquidity evaluation or assessment.

U.S. Investor Owned Electric Utilities

In the table below, we show a summary of the cash sources and uses, on a consolidated basis, for a selected peer group of parent holding companies and large operating utilities in the sector. In general, cash sources include cash, availability under the credit facilities, gross cash flow and pending asset sales; while cash uses include capital expenditures, dividends and / or share repurchases, scheduled debt maturities and any other pending payments (such as tax payments or pension contributions). As evidenced in the table, there are a number of large, well-positioned, investment-grade companies whose business plans incorporate a view that access to capital will not be impeded.

Table 1

Estimated Sources and Uses as of June 2008 ($ billions)

Company	Senior Unsecured Rating	Short-Term Rating	Rating Outlook	Total Sources	Total Uses	Net Sources/ Uses
AEP	Baa2	P-2	Stable	$7.0	$5.8	$1.2
ConEd NY	A1	P-1	Negative	$3.4	$3.7	($0.3)
Consolidated Edison	A2	P-1	Negative	$5.6	$4.3	$1.3
Dominion Resources	Baa2	P-2	Stable	$6.6	$7.8	($1.1)
Duke Energy	Baa2	P-2	Stable	$7.4	$8.2	($0.8)
Duke Energy Carolinas	A3	P-2	Stable	$2.6	$3.7	($1.1)
Exelon Corp	Baa1	P-2	Stable	$12.6	$7.4	$5.2
Pepco	Baa3	P-3	Stable	$2.1	$1.9	$0.2
Progress Energy Carolinas	A3	P-2	Stable	$1.7	$2.0	($0.3)
PSEG	Baa2	P-2	Stable	$5.1	$5.4	($0.3)
Public Service E&G	Baa1	P-2	Stable	$1.5	$1.6	($0.1)
SCANA	Baa1	NR	Stable	$1.6	$1.7	($0.1)
Southern Company	A3	P-1	Stable	$2.6	$1.8	$0.8
Virginia Electric and Power	Baa1	P-2	Stable	$4.2	$3.9	$0.3

** Corporate Family Rating / Senior Unsecured*

Steps to bolster liquidity, balance sheets key amid market stress

In light of current economic and financial market conditions, any action to increase capital, increase credit capacity, eliminate refinancing risk and otherwise inoculate the business from capital market volatility should be viewed as a significant credit positive. From a liquidity perspective, Moody's does not view the recent announcements by some utilities that they are making material draw-downs on their bank credit facilities negatively, since it simply transfers the source of cash to cash from the availability under its credit facilities. Nevertheless, we would be concerned if the current conditions in the financial markets, which include a disruption to the commercial paper markets, were to remain in effect for a protracted period of time or if the ability to access the term markets were to be disrupted for an extended period of time. These risks argue for a relatively quick reduction to these drawn facilities before liquidity has a chance to become stressed over the intermediate term horizon.

As a result, we are increasingly focused on a utility's execution strategies associated with managing near-term liquidity and its overall approach to corporate finance policies. In general, we incorporate a view that utility management teams will act in a reasonably conservative manner when addressing their liquidity strategy. We view some recent actions on the part of several utility companies positively, which includes recent additions to bank credit capacity (Duke Energy, PPL), the pre-funding of near-term scheduled maturities (SCE&G), and the issuance of common equity (Xcel Energy, Otter Tail Power Corp).

Business volatility dictates liquidity capacity needs

From a liquidity perspective, Moody's tends to group the sector first by rating category (investment grade versus non-investment grade) and then by the inherent cash flow volatility incorporated into the business model. In the table below, we summarize a recent grouping of utility and power companies that could benefit from materially increasing their total available credit capacity:

Table 2

Group I: Investment Grade Utility/Power Companies — Significant Merchant Energy/Trading/Non-regulated Activity			Group II: Non Investment Grade Utility/Power Companies — Significant Merchant Energy/Trading Activity		
Company	Senior Unsecured Rating	Short-Term Rating	Company	Senior Unsecured Rating	Short-Term Rating
AEP	Baa2	P-2	Allegheny Energy Supply	Ba1	NP
AmerenEnergy Generating	Baa3	na	Calpine Corporation	**B2	SGL-3
Black Hills Corporation	Baa3	na	Dynegy Holdings	***B1 / B2	SGL-3
Constellation Energy	Baa2 / RUR Down	P-2	Edison Mission Energy	***Ba3 / B1	SGL-2
Dominion Resources Inc.	Baa2	P-2	Energy Future Holding Corp.	**B2	SGL-3
Edison International	Baa2	na	Mirant Corporation	**B1	SGL-1
Entergy Corp	Baa3	na	NRG Energy	***Ba3 / B1	SGL-1
Exelon Corporation	Baa1	P-2	PNM Resources, Inc.	Ba2	NP
Exelon Generation	A3	P-2	Reliant Energy	**Ba3 / RUR Down	SGL-1
FirstEnergy Corp.	Baa3	na			
FPL Group, Inc.	*A2	P-1			
Integrys Energy Group, Inc.	A3	P-2			
Otter Tail Corporation	A3	na			
PPL Corporation	*Baa2	na			
PPL Energy Supply, LLC	Baa2	P-2			
PSEG	Baa2	P-2			
PSEG Power	Baa1	na			
Sempra Energy	Baa1	na			
TransAlta Corporation	Baa2	na			

** Issuer Rating*
*** Corporate Family Rating*
**** Corporate Family Rating / Senior Unsecured*

In our opinion, most companies in the sector that maintain significant non-regulated business activities, which we tend to view as being higher risk, non-core (to the regulated utility operations) and more volatile (to cash flows), will need to maintain robust amounts of liquidity capacity. This liquidity capacity needs to be sized at a level that is sufficient to withstand the relatively high amounts of volatility associated with the commodities that are being hedged as well as the cash flow and earnings volatility that may exist with their non-regulated businesses. Often, the volatility associated with natural gas and power commodities have surprised utility companies, as well as non-regulated merchant generators.

In addition, we view the steady exit of large financial institutions as counterparties in the commodity trading and marketing sector as a fundamental credit negative for those companies that engage in these hedging activities. In our opinion, the exit of counterparties could result in a decrease in market liquidity, a decline in the length of contract liquidity and wider bid-ask spreads.

Investor 'flight to quality' facilitates capital market access

Although credit is tightening substantially even for investment-grade companies, U.S. utilities continue to maintain reasonably good access to the markets. Borrowing costs are increasing, but utilities have been able to boost their liquidity capacity with additional revolvers or other credit facilities from banks. They continue to tap the capital markets for term debt, both on a secured and unsecured basis.

We believe the sector will maintain access to the markets. Investors perceive utilities as a safe haven, presenting the industry with ready access to debt and equity capital to finance capital expenditures and dividends. This "flight to quality" should particularly benefit utilities that have reduced the overall operating risk of their business activities during the last few years.

Market access is coming at a higher cost. But interest rates remain modest by historical standards and utilities generally have rate mechanisms that allow them to recover higher borrowing costs from customers. Still, the credit crunch has contracted the availability of commercial paper for some issuers and has substantially widened spreads over Treasuries for intermediate and long-term maturities. Since August, the sector has issued almost $7 billion in debt securities. We observe that a majority of these new offerings are from single-A rated utilities and primarily include senior secured debt.

Table 3

Recent Debt Offerings

Issue Date	Issuer	Type	Rating	Size ($mm)	Coupon	Yield	Term	Spread
10/7/08	Southern California Edison	FMBs	A2	$500	5.750%	5.862%	5 yr	340
10/7/08	Detroit Edison	G&R Mtg	A3	$250	6.400%	6.462%	5 yr	400
10/1/08	Interstate P&L	Sr. Unsec.	A3	$250	7.250%	7.375%	10 yr	358
10/1/08	Wisconsin P&L	Sr. Unsec.	A2	$250	7.600%	7.750%	30 yr	350
9/25/08	PECO Energy	FMBs	A2	$300	5.600%	5.664%	5 yr	263
9/25/08	South Carolina E&G	FMBs	A2	$250	6.500%	6.538%	10 yr	265
9/25/08	Wisconsin Electric	Notes	A1	$300	6.000%	6.041%	5 yr	300
9/4/08	Oklahoma G&E	Sr. Unsec.	A2	$250	6.350%	6.399%	10 yr	275
9/4/08	Ohio Power	Sr. Unsec.	A3	$250	5.750%	5.769%	5 yr	290
9/3/08	Northern States Power	FMBs	A2	$200	6.375%	6.433%	30 yr	210
9/3/08	Oncor Electric	Fallaways	Baa3	$300	7.500%	7.526%	30 yr	320
9/3/08	Oncor Electric	Fallaways	Baa3	$550	6.800%	6.815%	10 yr	313
9/3/08	Oncor Electric	Fallaways	Baa3	$650	5.950%	5.982%	5 yr	305
8/27/08	Sierra Pacific Power	G&R Mtg	Baa3	$250	5.450%	4.494%	5 yr	247
8/21/08	Duke Energy Indiana	FMBs	A3	$500	6.350%	6.365%	30 yr	193
8/13/08	Southern Company	Sr. Unsec.	A3	$600	L+70	L+70	2 yr	N/A
8/11/08	Entergy Louisiana	FMBs	Baa1	$300	6.500%	6.509%	10 yr	248
8/11/08	Southern California Edison	FMBs	A2	$400	5.500%	5.575%	10 yr	155
8/6/08	Public Service Co of Colorado	FMBs	A3	$300	5.800%	5.820%	10 yr	175
8/6/08	Public Service Co of Colorado	FMBs	A3	$300	6.500%	6.531%	30 yr	185
	TOTAL			$6,950				

Source: Barclays Capital

Recession effect on infrastructure investment plans unclear

If the current economic and financial market conditions were followed by an extended recessionary period, the sector could experience some pressure. A recession could contribute to lower annual average volume growth percentages, or perhaps even volume declines. Depending on the environment, consumers may quickly reach a tolerance level where they more vigorously object to annual rate increases – and articulate those concerns through the political and regulatory processes.

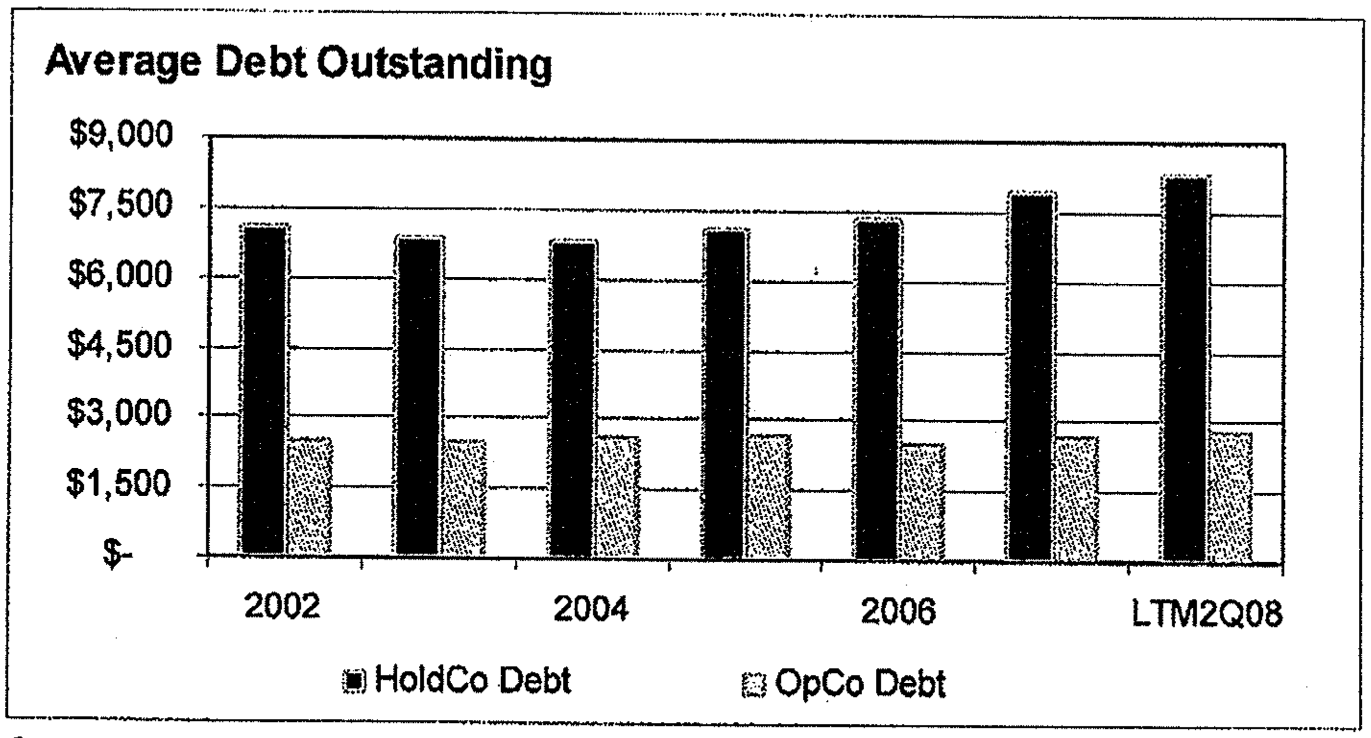
In addition, many regulators may incorporate a view that some of the supportiveness offered to utilities – in the form of expense trackers and/or riders – argues for a lower authorized return on equity, a trend that appears to be continuing.

More importantly, many utilities are playing "catch up" with respect to their investment in their infrastructure. As such, a recession-induced decline in volumes could be viewed as a long-term credit positive – since it provides a utility with additional time to strengthen and refurbish its network without the pressure of tight reserve margins. On the other hand, these investments should result in incremental rate increases, which could exacerbate pressures on regulators to limit near-term relief. Although longer-term relief may not be completely out of the question, many utilities are reluctant to incur the risk of sizeable deferrals on their financial statements.

Reluctance to issue common equity viewed negatively

Excluding the potential implications of recession for the sector, fundamentally we believe the sector should be increasing its equity financing targets, as evidenced by its substantial negative free cash flow generation – both historically and prospectively – and given an over-reliance on incremental debt financing.

Chart A:

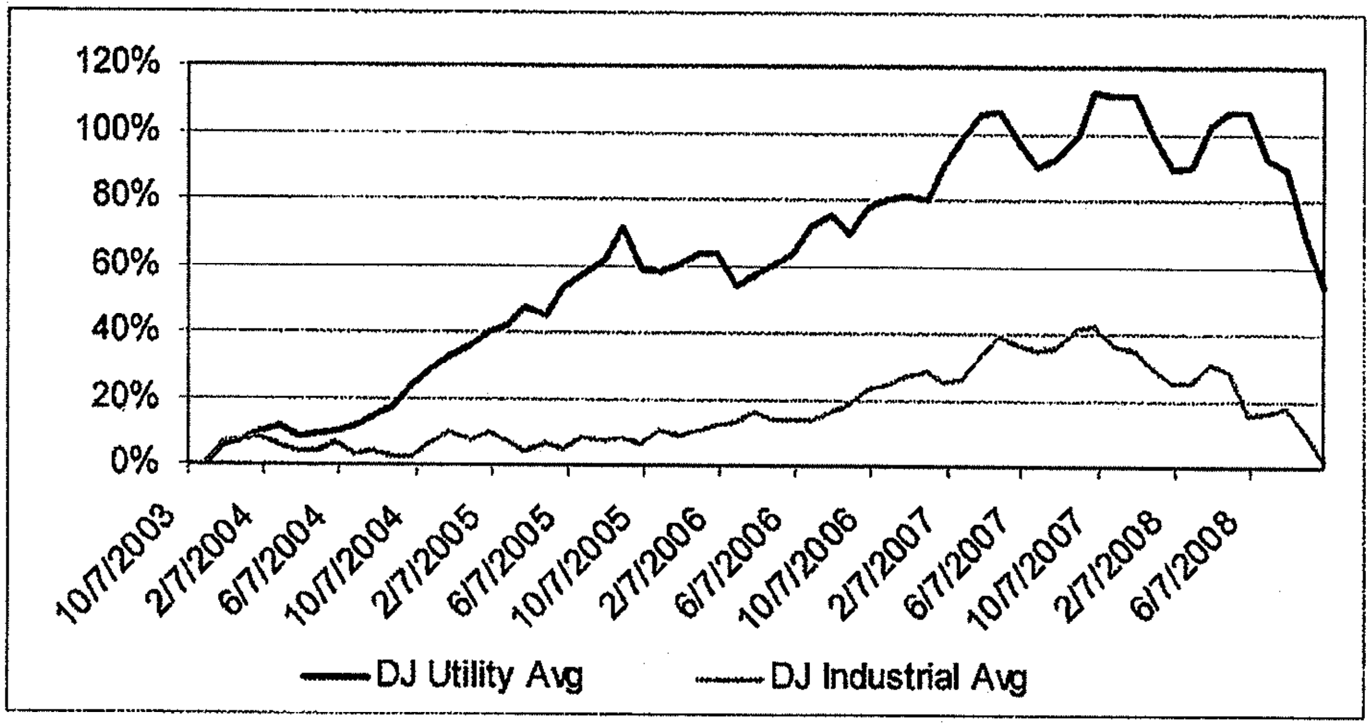


Source: Moody's and company reports. Figures in U.S. $ millions.

Considering the current economic and financial market conditions, it is our opinion that the landscape may present a clear opportunity for utilities to access the equity markets on reasonable terms. The sector has significantly outperformed the broader stock market over the past few years, it continues to enjoy reasonable valuation multiples when compared to other industrial sectors and our perception that investors may be increasingly seeking defensive investment opportunities leads us to conclude that access to equity capital is ready and available.

Chart B:

Relative Stock Performance over past 5 years



Source: Yahoo Finance

However, some companies continue to exhibit a reluctance or resistance to issuing common equity, which we view negatively. In the event that some utilities defer their equity plans, and subsequently experience some business or financial distress, Moody's would likely incorporate only a modest amount of tolerance before potential rating actions followed.

Utilities retain good regulatory support

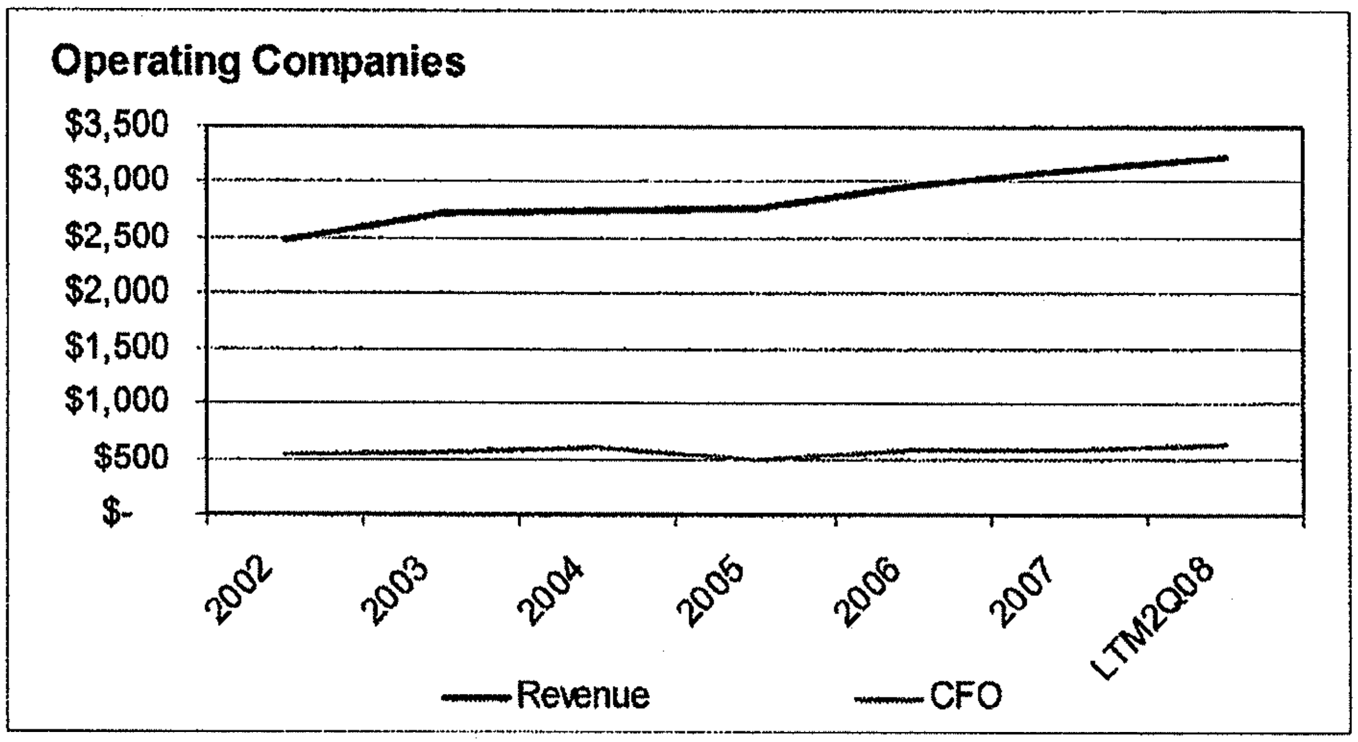
The support provided to the U.S. electric utility sector by state regulators is the primary foundation for long-term credit stability. In general, Moody's incorporates a view that regulators will provide reasonable recovery for prudently incurred costs and investments with a reasonable return of capital (and on capital) in a timely manner. In addition, we incorporate a view that utility companies often behave as constructive corporate citizens within their authorized service territories, and that they have impressive constituency outreach programs. This contributes to our view that utilities also enjoy strong support from their elected officials in the legislative sector.

As depicted in the charts below, the support provided by regulators is evidenced in the sector's relatively stable revenues, earnings and cash flows. We observe that there has been reasonably steady growth in the revenues for both vertically integrated utilities and their parent holding companies, while cash flows have remained relatively steady. The divergence between the revenues and cash flow could be attributed, in part, to the level of fuel and purchased power and other "trackers" that utilities are utilizing to recover their costs, which generally do not have a margin component.

It should be noted that the charts below depict the average revenues and cash flows for a broad base of comparable companies, which are listed in Appendix A.

Chart C:

Operating company average historical revenues and cash flow from operations

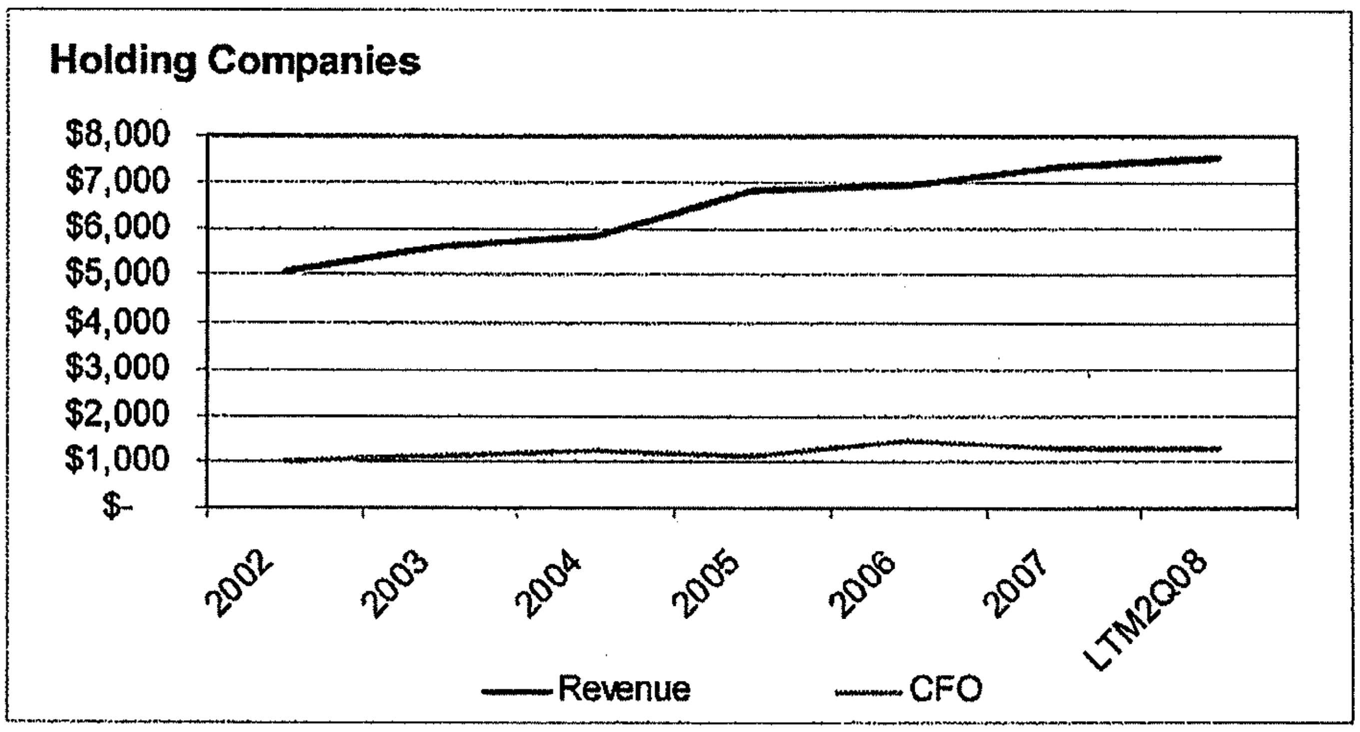


Source: Moody's.

Average includes 56 vertically integrated electric utilities. For a list of the utilities included in the average, please refer to Appendix A. Figures in U.S. $ millions.

Chart D:

Holding company average historical revenues and cash flow from operations



Source: Moody's.

Average includes 43 utility parent holding companies. For a list of the utilities included in the average, please refer to Appendix A. Figures in U.S. $ millions.

We believe regulation is, by definition, political. As a result, there are occasions when the relationship between a utility and its regulators (or legislators) becomes strained. In some instances, this strain can lead to financial distress. Over the past few years, we have observed the interaction in Maryland and Illinois (which was primarily legislatively sponsored) with concern. More recently, we have been monitoring the developments in Ohio, Arizona, Pennsylvania and New Mexico. Prospectively, we remain cautious regarding the potential developments in Texas and the New England and Mid-Atlantic regions. States in these regions (excluding

Vermont) have all experienced a substantial market restructuring in an attempt to introduce competition into the sector, which leads us to conclude that these states also have a higher risk of additional restructuring.

However, over the longer-term horizon, we observe that often, the strain in the relationship is usually replaced with a general level of support that underlies our rating assessments. California, for example, is now considered reasonably constructive in its approach to regulation and Ohio continues to work in a broad collaborative manner to address its infrastructure needs within the scope of its regulatory environment. More recently, it appears that Pennsylvania has taken steps to resolve its issues in a relatively constructive manner.

This view is not meant to understate the financial stress that can be created when the relationship between a utility and its regulators / legislators becomes strained. Often, a strained environment may take several years to fully work out. As a result, we continue to view those states and regions, such as the southeastern region in the U.S., more positively (from an overall credit supportiveness of the regulatory environment) than other states or regions that have experimented with significant market restructuring.

In summary, we incorporate a view that regulators and legislators are aware of the infrastructure investment needs for the sector, the desire to address increasingly stringent environmental mandates and the generally rising operating cost structure. We also incorporate a view that regulators and legislators would prefer to have financially strong utilities providing their service, in part to attract businesses to their local economies. In the table below, we show a sampling of the more recent regulatory decisions, all of which included double-digit rate increases and an authorized return on equity over 10%. A few examples of pending rate cases are given, as well.

Table 4: Selected examples of recent regulatory support

Recently Decided Electric Rate Cases

State	Company	Decision Date	Revenue Result	Allowed ROE
ID	Avista Corp.	9/30/2008	12.0% Increase	10.20%
IL	Commonwealth Edison	9/10/2008	15.1% Increase	10.30%
WV	Appalachian Power	6/27/2008	11.4% Increase	10.50%

Pending Rate Cases

		Requested		Previous Case		
State	Company	Revenue	ROE	Revenue Outcome	ROE	Date
NY	ConEd	11.3% Increase	10.00%	4.7% Increase	9.10%	3/25/2008
KS	Kansas G&E	14.9% Increase	10.95%	3.5% Decrease	10.00%	12/28/2005
KS	Westar Energy	15.0% Increase	10.95%	4.6% Increase	10.00%	12/28/2005
ND	No. States Power - MN	12.2% Increase	10.75%	3.1% Increase	11.00%	12/15/1992
WA	PacifiCorp	14.6% Increase	10.75%	6.3% Increase	10.20%	6/21/2007
AZ	Tucson Electric	23.0% Increase	10.75%	1.1% Increase	10.67%	3/29/1996
MO	Union Electric	11.7% Increase	10.90%	2.0% Increase	10.20%	5/22/2007

Source: Regulatory Research Associates

Financial profile stable, with modest downtrend in some metrics

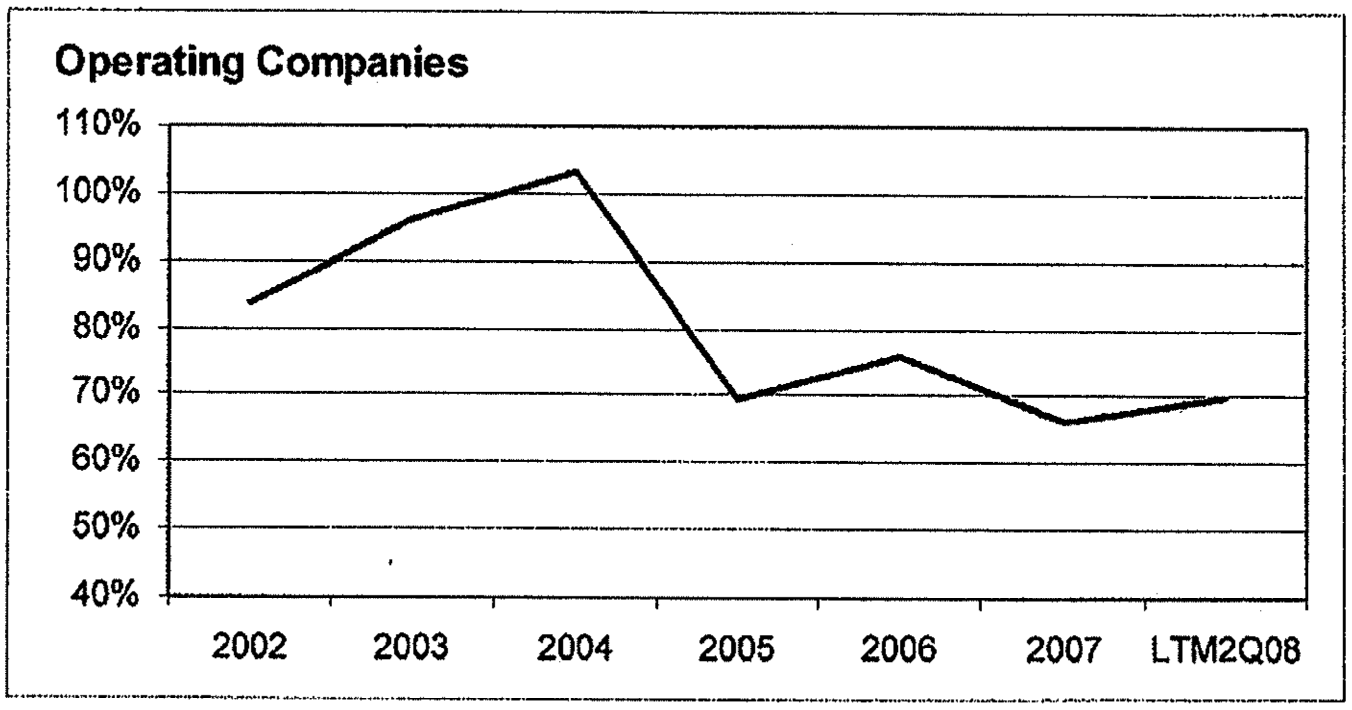
Over the past few years, many of our key financial credit metrics have exhibited some reasonable stability, although we remain concerned over the longer-term implications for several modestly declining trends, most notably the ratios associated with cash flows and capital expenditures. Although these modest declines for the sector have our attention, we do not incorporate a view that the declines are sufficient enough to warrant a change to the sector's stable fundamental industry outlook at this time.

U.S. Investor Owned Electric Utilities

As depicted in the charts below, we evaluated the average ratios of retained cash flow to capital expenditures and cash flow from operations before any changes in working capital to total adjusted debt. These ratios reflect the substantial increases in the sector's capital investment plans, the incremental debt that the sector has issued to primarily finance those investments and the relative stability of annual cash flows.

Chart E:

Average historical retained cash flow to capital expenditures

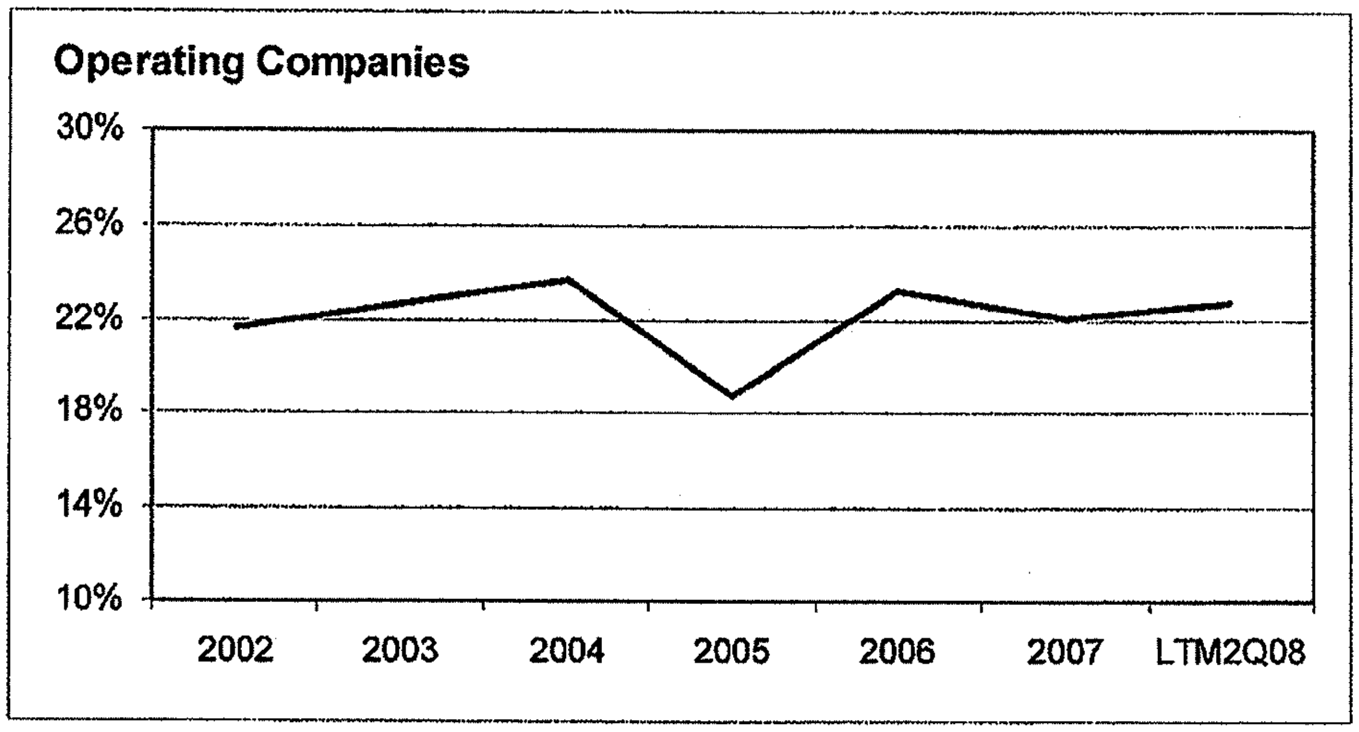


Source: Moody's.

Average includes 56 vertically integrated electric utilities. For a list of the utilities included in the average, please refer to Appendix A.

Chart F:

Average historical cash flow (adjusted for changes in working capital) to total adjusted debt



Source: Moody's.

Average includes 56 vertically integrated electric utilities. For a list of the utilities included in the average, please refer to Appendix A.

Prospective financial profile remains investment grade

We incorporate a view that the sector should be reasonably well protected from the effects associated with a protracted recessionary environment and maintain its investment-grade ratings category. Unlike customers for many other capital-intensive industrial sectors, utility consumers may be less likely to sharply reduce their usage, beyond some modest level of conservation. They should still use an average amount of electricity. In contrast, a consumer can defer or decide against purchasing new equipment, automobiles or software.

In an effort to demonstrate the strong resiliency that utilities exhibit over a longer-term horizon, Moody's created a hypothetical, vertically integrated electric utility, which we will refer to as "RegCo." RegCo is an average of the 56 vertically integrated utility companies that are listed in Appendix A, and has produced, on average, roughly \$3 billion in revenue and \$575 million in cash flow from operations over the past few years. RegCo has approximately \$6 billion of property, plant and equipment (net of accumulated depreciation), total assets of roughly \$8.5 billion and approximately \$2.8 billion of debt.

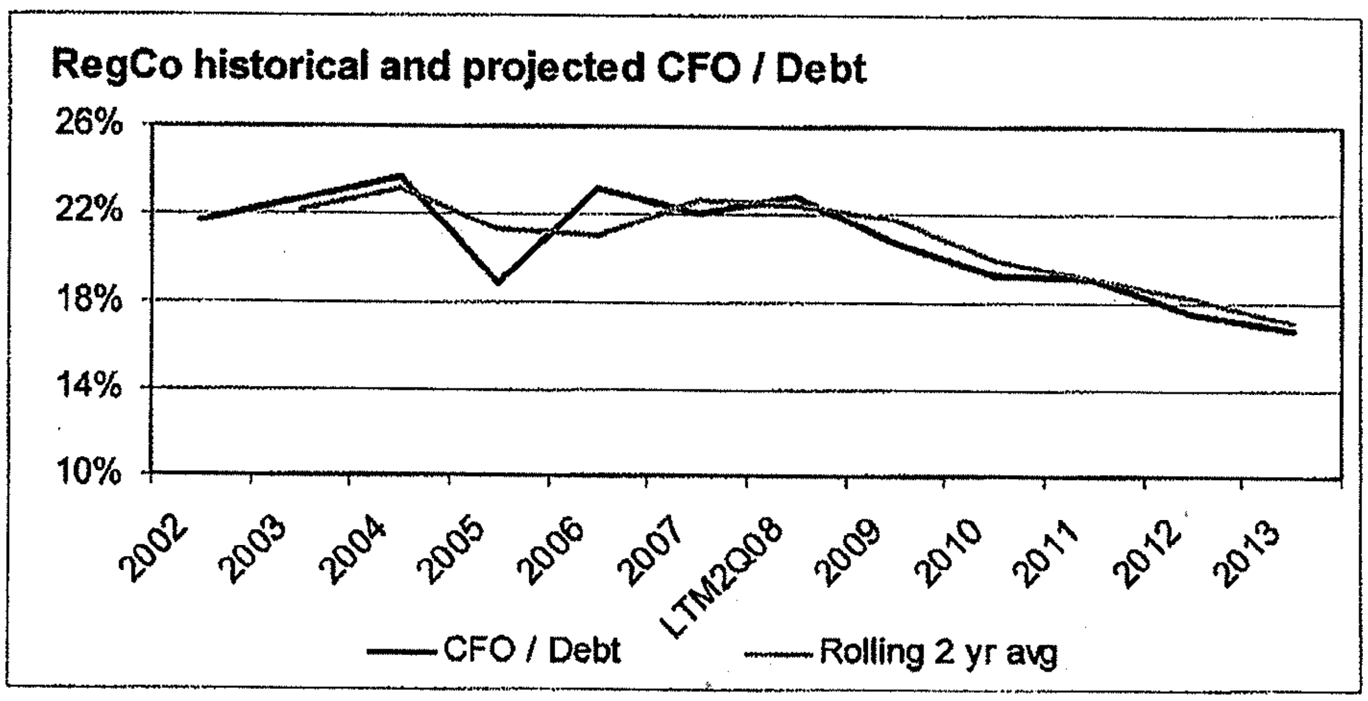
Moody's evaluated the average historical financial statements for RegCo between 2002 and the 12 months ended June 2008. Based on these historical financials, we made a series of assumptions, including assumptions regarding volume growth, rate increases, cost increases and dividend policy, in an attempt to generate a "base-case" view as to how RegCo might perform over the next five years (2009 – 2013). A list of our assumptions is included in Appendix B.

It should be noted that RegCo's base-case financial projections, which are premised on the historical averages for 56 vertically integrated electric utilities, do NOT completely represent our views regarding the likely performance for our individual, rated utility companies. Instead, this exercise should be viewed as an illustrative example of what might happen, based on our simple projections.

As depicted in the charts below, RegCo's base-case assumptions would produce a reasonable amount of CFO to adjusted total debt over our projected 5 year horizon. Although the trend line is modestly declining over the next few years, a credit negative, we observe that it remains comfortably above 15%, a threshold which remains firmly within our Baa investment-grade rating category.

Chart G:

Illustrative cash flow to debt, historical and base case projected



Utility financials exhibit resilience to recessionary pressures

Although our concerns associated with a protracted recessionary environment are primarily associated with consumers reaching a tolerance point to absorb incremental rate increases, we remain confident that the sector has the fundamental ability to adjust its corporate finance policies in order to address any potential negative financial implications.

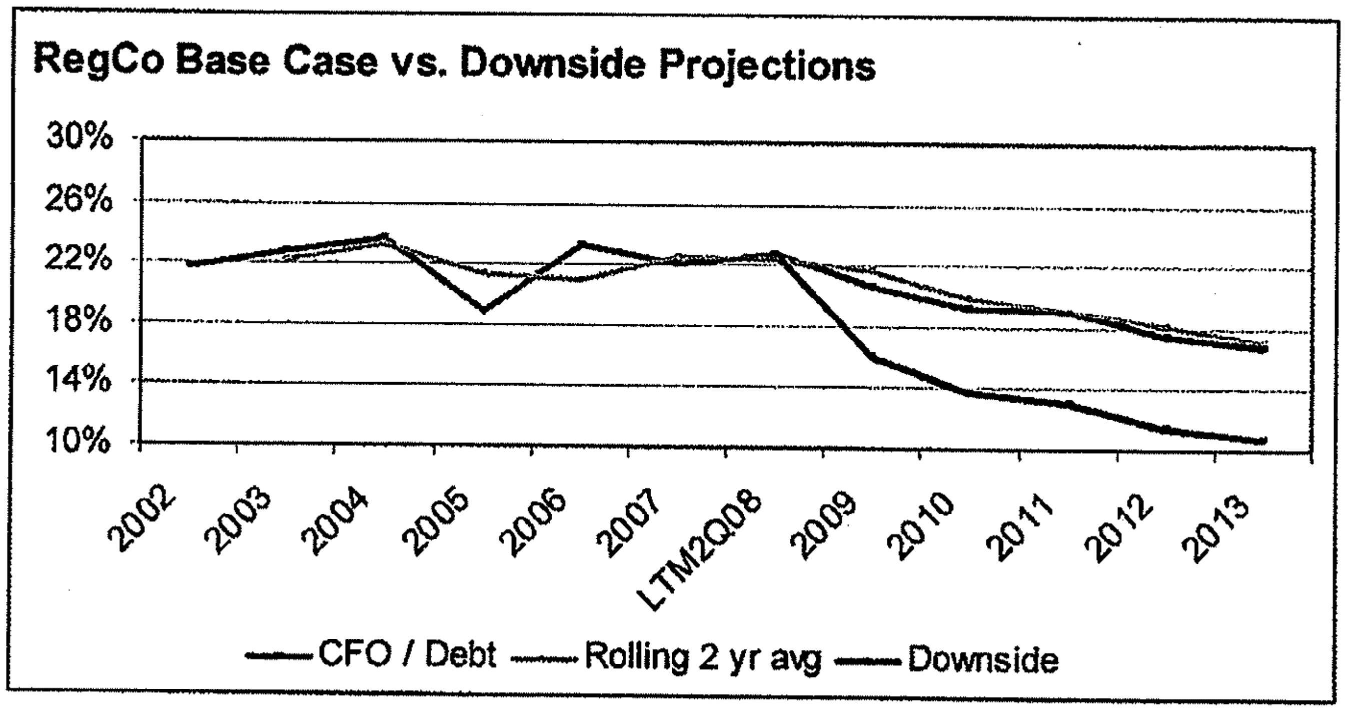
We observe that under many illustrative downside scenarios, RegCo should still be capable of producing positive cash flows from operations that represent over 10% of total adjusted debt outstanding. Although this ratio represents a material reduction from the longer-term average of roughly 23%, it remains unclear if that would be sufficient to push the sector into a non-investment-grade ratings category at this time. At a minimum, a ratio of 10% CFO to total adjusted debt would hardly be viewed as a crisis of solvency.

In the charts below, Moody's illustrates the sector's financial resiliency through projected CFO to total adjusted debt ratios that reflect several relatively severe downside assumptions, which are listed in Appendix B.

Should such downside scenarios materialize, there would be a significant amount of pressure on RegCo's ratings. However, we acknowledge that one of the primary benefits a utility enjoys is its long-term capital intensity and its reasonably stable production of cash flows. As such, RegCo should be in a position to address the negative impacts of a protracted recession by revising its corporate policies.

Chart H:

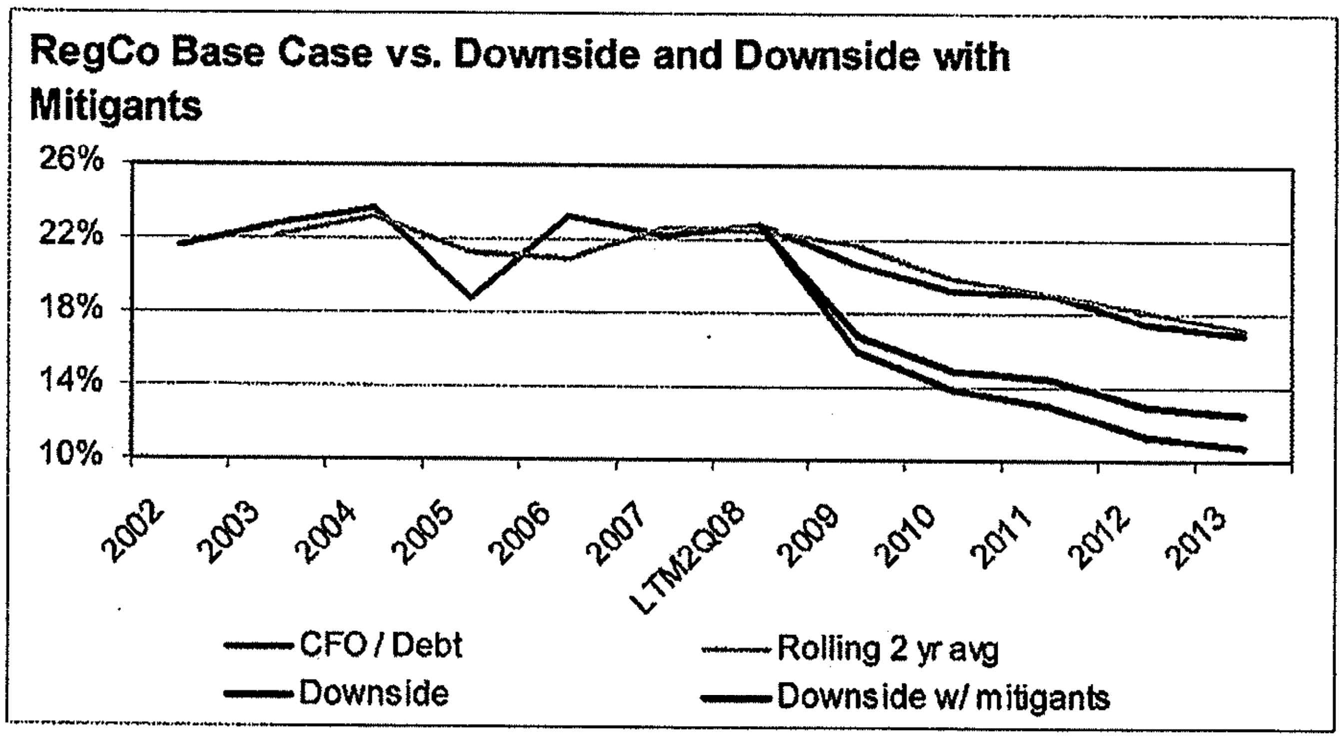
Illustrative cash flow to debt, historical, base case and downside scenarios



In Chart G below, we illustrate the positive benefits associated with RegCo revising some of its corporate finance policies. In this example, which we refer to as the downside case with mitigants, we assume RegCo reduces its planned capital expenditures by roughly 20% a year over the projection horizon and that RegCo lowers its annual dividend payout ratio to 45% (of prior year's earnings) from 65%. As evidenced in the chart below, there is some moderation of the decline in the ratio of CFO to total adjusted debt.

Chart I:

Illustrative cash flow to debt, historical, basecase, downside and downside with mitigants



Conclusion

The fundamentals for the U.S. investor-owned electric utility sector remain intact. The support provided by the regulated business activities produce a relatively stable and predictable stream of revenues, earnings and cash flow, which, when compared to the total amount of outstanding debt, supports a strong investment-grade rating category. The sector appears to be well insulated from the potential for a protracted recession, but it is not immune to the potential negative consequences of continuing with business as usual.

Therefore, we believe some proactive steps may be necessary to fortify the sector's balance sheet over the longer-term horizon, in part due to the challenges associated with commodity fuel costs, massive infrastructure investment needs and increasingly stringent environmental mandates. The quickest and most effective means to accomplish a balance sheet strengthening program is a significant infusion of common equity, in our opinion.

Although the overall liquidity profile for the sector appears adequate, the historical reliance on commercial paper markets and debt financings lead us to believe that additional proactive steps to bolster liquidity are also in order.

It remains unclear, at this time, if a reduction or downward revision to the infrastructure investment needs of the sector is an appropriate long-term action. These infrastructure investments had been identified as necessary, given the age of the assets, and continued regulatory support has been incorporated into most utilities' long-range forecasts, including an expectation that returns on capital would be reasonable. Should this prove not to be the case, it could represent the first crack in our fundamental assumption regarding the sector's ratings and rating outlooks.

While a protracted recessionary environment could create some near- to intermediate-term pressures on the sector's financial profile, we believe most companies have numerous options at their disposal to address these pressures well in advance – actions which we assume a conservative utility management team and Board of Directors would pursue.

Appendix A

Vertically Integrated Operating Companies

	Senior Unsecured Rating
Alabama Power Company	A2
Appalachian Power Company	Baa2
Arizona Public Service Company	Baa2
Avista Corp.	Baa3
Cleco Power LLC	Baa1
Columbus Southern Power Company	A3
Consumers Energy Company	*Baa1
Dayton Power & Light Company	**A3
Detroit Edison Company (The)	**Baa1
Duke Energy Carolinas, LLC	A3
Duke Energy Indiana, Inc.	Baa1
Duke Energy Ohio, Inc.	Baa1
El Paso Electric Company	Baa2
Entergy Arkansas, Inc.	**Baa2
Entergy Gulf States Louisiana	*Baa3
Entergy Louisiana, LLC	Baa2
Entergy Mississippi, Inc.	**Baa3
Florida Power & Light Company	**A1
Georgia Power Company	A2
Gulf Power Company	A2
Hawaiian Electric Company, Inc.	**Baa1
Idaho Power Company	Baa1
Indiana Michigan Power Company	Baa2
Kansas City Power & Light Company	A3
Kentucky Power Company	Baa2
Madison Gas and Electric Company	Aa3
MidAmerican Energy Company	A2
Mississippi Power Company	A1
Nevada Power Company	**Ba3
Northern Indiana Public Service	Baa2
Northern States Power Company (MN)	A3
Northern States Power Company (WI)	*A2
Ohio Power Company	A3
Oklahoma Gas & Electric Company	A2
Pacific Gas & Electric Company	A3
PacifiCorp	Baa1
Portland General Electric Company	Baa2
Progress Energy Carolinas, Inc.	A3
Progress Energy Florida, Inc.	A3
Public Service Company of Colorado	Baa1
Public Service Company of New Mexico	Baa3
Public Service Company of Oklahoma	Baa1
Puget Sound Energy, Inc.	Baa3
San Diego Gas & Electric Company	**A2
Sierra Pacific Power Company	**Ba3
South Carolina Electric & Gas Co	A3
Southern California Edison Company	A3
Southwestern Electric Power Company	Baa1
Southwestern Public Service Company	Baa1
Tampa Electric Company	Baa2
Tucson Electric Power Company	**Baa3
Union Electric Company	**Baa2
Virginia Electric and Power Company	Baa1
Wisconsin Electric Power Company	A1
Wisconsin Power and Light Company	A2
Wisconsin Public Service Corporation	A1

Parent Utility Holding Companies

	Senior Unsecured Rating
Allegheny Energy, Inc.	Ba1
ALLETE, Inc.	**Baa1
Alliant Energy Corporation	****P-2
Ameren Corporation	**Baa3
American Electric Power Company	Baa2
Black Hills Corporation	Baa3
Cleco Corporation	Baa3
CMS Energy Corporation	Ba1
Constellation Energy Group, Inc.	Baa2
Dominion Resources Inc.	Baa2
DPL Inc.	Baa2
DTE Energy Company	Baa2
Duke Energy Corporation	Baa2
Edison International	Baa2
Empire District Electric Company	Baa2
Energy Future Holdings Corp.	***B2
Entergy Corporation	Baa3
Exelon Corporation	Baa1
FirstEnergy Corp.	Baa3
FPL Group, Inc.	**A2
Great Plains Energy Incorporated	Baa2
Hawaiian Electric Industries	Baa2
IDACORP, Inc.	Baa2
IPALCO Enterprises, Inc.	*Ba1
MidAmerican Energy Holdings Co.	Baa1
OGE Energy Corp.	Baa1
Pepco Holdings, Inc.	Baa3
PG&E Corporation	Baa1
Pinnacle West Capital Corporation	Baa3
PNM Resources, Inc.	Ba2
PPL Corporation	**Baa2
Progress Energy, Inc.	Baa2
Public Service Enterprise Group	Baa2
Puget Energy, Inc.	**Ba1
SCANA Corporation	Baa1
Sempra Energy	Baa1
Sierra Pacific Resources	***Ba1
Southern Company (The)	A3
TECO Energy, Inc.	Baa3
UniSource Energy Corporation	*Ba1
Westar Energy, Inc.	Baa3
Wisconsin Energy Corporation	A3
Xcel Energy Inc.	Baa1

** Senior Secured or First Mortgage Bond Rating*

*** Issuer Rating*

**** Corporate Family Rating*

***** Short-Term Rating*

Appendix B

RegCo's base-case simplifying assumptions include the following:

- Cash flow from operations equal 18% of revenue in 2009, but modestly decline to 16% by 2013. Historically, this relationship of cash flows and revenue has exhibited a steady decline from roughly 21% in 2002 to 18% in 2005, where it remains today.
- Annual rate increases are provided at a level that results in a 10% return on equity every year.
- Dividends are paid based on 65% of the prior year's net income available to common shareholders. This results in a projected dividend payout ratio in the low-60% range, which we view as reasonable. The dividend payout ratio in 2007 was 56%.
- Negative free cash flow is financed 80% debt / 20% equity and a 7% interest rate is applied to all incremental debt throughout the forecast period. In the event positive free cash flow is generated, the model will reduce debt and equity in the same 80% / 20% percentages.
- There are no other debt maturities assumed.
- Volumes grow at 1% per year.
- Operations and maintenance expenses grow at 5% per year.
- Fuel and purchased power increases are assumed as follows:
  - 5% increase in 2009
  - 7.5% increase in 2010 and 2011
  - 5% increase in 2012
  - 2.5% increase in 2013

Base capital expenditures are assumed as follows:

- 225% of prior year's depreciation and amortization (D&A) in 2009
- 210% of prior year's D&A in 2010
- 200% of prior year's D&A in years 2011- 2013

As a simplifying assumption, Moody's incorporates a view that all capital expenditures are immediately placed in rate base and depreciated. This assumption avoids the creation of construction work in progress accounts (CWIP) or other deferral accounts that can complicate our projection model. Essentially, this assumes that regulators will be providing real time recovery on all expenditures on an annual basis.

Downside assumption adjustments to the base case:

- 0% annual volume growth instead of 1% in the base case
- The ratio of CFO to revenues is reduced by 300 basis points across the projection horizon.
- Annual rate increases limited to 3% per year across the projection horizon.
- The annual fuel and purchased power expense increases are cut by 50% across the projection horizon.
- Average interest expense increases by 200 basis points (to 9% from 7%) for any incremental debt issued over the next five years

Moody's Related Research

Covenant Quality Assessments

- Oncor Electric Delivery, August 2008 (111034)
- Public Service Company of New Mexico, May 2008 (109223)
- PNM Resources, May 2008 (108991)
- AmerenEnergy Generating Company, April 2008 (108549)
- Dominion Resources, February 2008 (107829)
- Virginia Electric and Power Company, February 2008 (107828)

Rating Methodologies

- North American Diversified Natural Gas Transmission and Distribution Companies, March 2007 (102513)
- North American Natural Gas Pipelines, December 2006 (101229)
- North American Regulated Gas Distribution Industry (Local Distribution Companies), October 2006 (99282)
- Probability of Default Ratings and Loss Given Default Assessments for Non-Financial Speculative-Grade Corporate Obligors in the United States and Canada, August 2006 (98771)
- Rating Methodology: Global Regulated Electric Utilities, March 2005 (91730)

Industry Outlooks

- US Investor Owned Electric Utilities – Six Month Industry Update, July 2008 (109675)
- US Electric Utility Sector, January 2008 (107004)
- North American Natural Gas Transmission & Distribution: Six-Month Industry Update, July 2008 (111486)
- US Coal Industry Outlook – 2008, October 2007 (105372)
- North American Natural Gas Transmission & Distribution, September 2007 (104854)
- U.S. Electric Utilities, December 2006 (101304)

Special Comments

- North American Midstream Energy Companies: Industry Snapshot and Issuer Profiles, September 2008 (111650)
- Natural Gas Pipelines Manage Risks Amid Building Boom, September 2008 (111220)
- Gas Distribution Companies See Late Payments Rise, But Liquidity Holds Up, August 2008 (110376)
- New Nuclear Generation Capacity: Potential Credit Implications for US Investor Owned Utilities, May 2008 (109152)
- EU Climate Change Strategy, May 2008 (108846)
- Decommissioning and Waste Costs for New Generation of Nuclear Power Structures, May 2008 (109086)
- New Generating Capacity in a Carbon Constrained Environment, March 2008 (107453)
- Credit Challenges Ahead For Public Power: Difficult Decisions on New Generation Capacity, November 2007 (105997)

(continued on next page)

Special Comments *(continued)*

- New Nuclear Generation in the US: Keeping Options Open Vs Addressing An Inevitable Necessity, October 2007 (104977)
- Storm Clouds Gathering on the Horizon for the North American Electric Utility Sector, August 2007 (103941)
- Environmental Regulations Increase Capital Costs for Public Power Electric Utilities, June 2007 (103616)
- Regulation Of Greenhouse Gases: Substantial Credit Challenges Likely Ahead For U.S. Public Power Electric Utilities, June 2007 (103356)
- Regulatory Pressures Increase For U.S. Electric Utilities, March 2007 (102322)
- Proposed Acquisition of TXU Corp. by a Consortium of Private Equity Investors Raises Potential for a Multi-Notch Ratings Downgrade, March 2007 (102471)
- Moody's Comments on the Credit Implications Associated with North American Utility Consolidation, December 2006 (101392)
- Moody's Comments on the Back to Basics Strategy for the North American Electric Utility Sector, November 2006 (100660)
- Texas Retail Electric Providers Face Credit Challenges, October 2005 (94787)
- Uncertainties Remain With Respect To The Restructuring of the Texas Electric Utility Industry, March 2004 (81796)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

U.S. Investor-Owned Electric Utilities

Report Number: 111891

Author	Associate Analyst	Editor	Production Associate
James Hempstead	Ryan Wobbrock	Scott Stearns	Shubhra Bhatnagar

Moody's Investors Service

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Corporates

Global Power
North America
Special Report

Global Power Monthly Summary — January 2010

Analysts

Glen Grabelsky
+1 212 908-0577
glen.grabelsky@fitchratings.com

Ellen Lapson
+1 212 908-0504
ellen.lapson@fitchratings.com

Sharon Bonelli
+1 212 908-0581
sharon.bonelli@fitchratings.com

Robert Hornick
+1 212 908-0523
robert.hornick@fitchratings.com

Ralph Pellecchia
+1 212 908-0586
ralph.pellecchia@fitchratings.com

aniel Neama
212 908-0561
daniel.neama@fitchratings.com

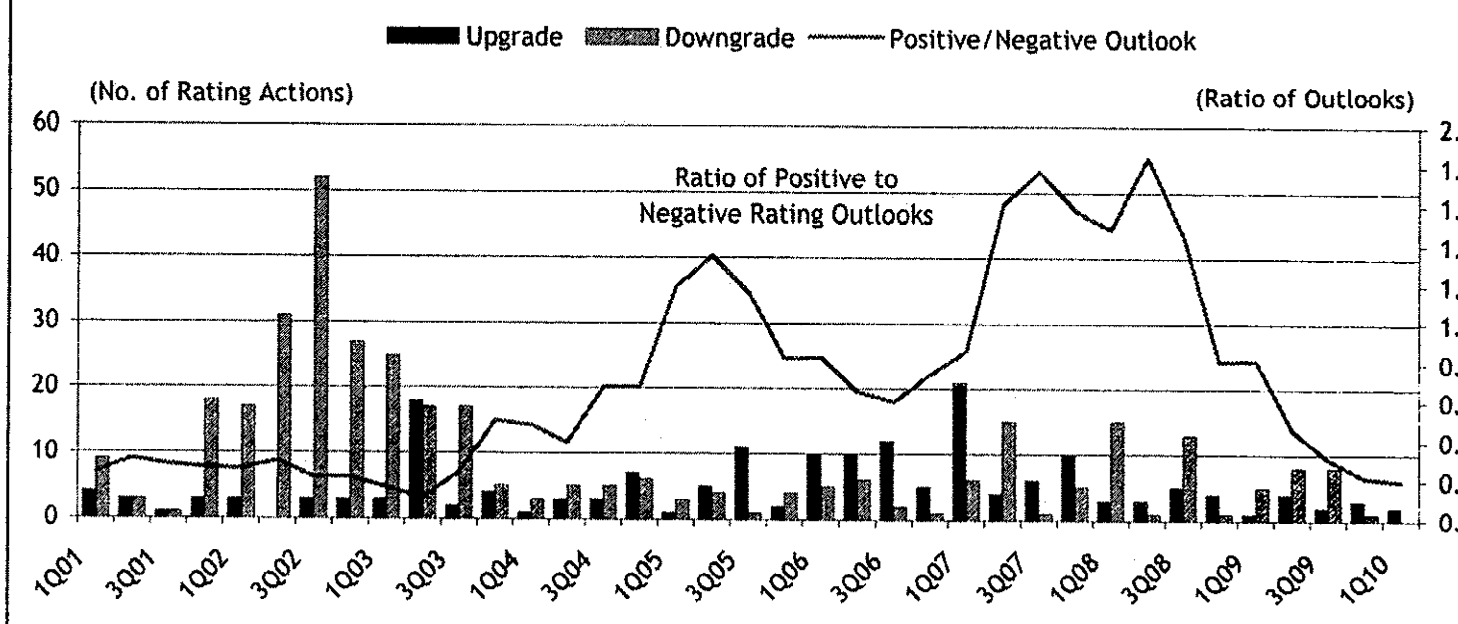
Debt issuances in the GPG utility sector were off to a moderate start in January 2010 and included Energy Future Holdings Corp.'s (EFH; IDR: 'B') issuance of $500 million of 10.0% 'B+' rated secured notes due 2020 and Trans-Allegheny Interstate Line Company's (TrAILCo.; IDR: 'BBB–') issuance of $450 million of 4.0% 'BBB' rated unsecured notes due 2015. Additionally, Energy Transfer Equity, L.P.'s (ETE) (IDR:'BB–') deferral of its planned issuance of $1,750 million of 'BB' rated senior unsecured notes is a testament that capital markets can still be jittery, even for a sector with traditionally strong access to capital markets.

There was one rating upgrade during the month of January. The rating upgrade was for Commonwealth Edison Company (ComEd), whose IDR was upgraded to 'BBB–' from 'BB+'. ComEd's return to investment grade reflects the financial improvement achieved at the company and a more settled regulatory and legislative environment in Illinois. Also, in late January, Fitch implemented new criteria for rating preferred stock and deferrable hybrid securities, which produced one-notch downgrades for those instruments affected.

There were five changes in Rating Outlooks or Watches (excluding financing subsidiaries), and only one (Williams Partners L.P.) was positive. Two Florida utilities were placed on Rating Watch Negative, including Florida Power Corp. (d/b/a Progress Energy Florida IDR: 'A–') and FPL Group Inc. (IDR: 'A') and its subsidiaries, including: Florida Power & Light Company (IDR: 'A'), and FPL Group Capital Inc. (IDR: 'A'). The Rating Watch Negative for these issuers was primarily driven by lower-than-expected outcomes in their respective base rate filings with the Florida Public Service Commission and the politicized regulatory climate.

Given Fitch's generally stable view of the sector, rating activity is likely to remain limited, but biased to downgrades, reflecting the declining ratio of Positive to Negative Outlooks as depicted in the chart below.

Quarterly Upgrades and Downgrades and Ratio of Positive to Negative Outlooks, 2001–2010
(As of Jan. 31, 2010)



Source: Fitch.

Monthly Summary Report — January 2010

Research, Special Reports, and Events

Date	Topic
1/27/10	Credit Update: Kern River Funding Corp. (A Subsidiary of MidAmerican Energy Holdings Co.)
1/26/10	Credit Analysis: KeySpan Corporation (And Subsidiaries Brooklyn Union Gas Company and KeySpan Gas East Corporation
1/26/10	Press Release: American Electric Power Co.
1/25/10	Press Release: ComEd Ratings; Affirms Exelon and Other Subsidiaries
1/22/10	Press Release: Hybrid Rating Changes for the U.S. Corporates Sector
1/19/10	Press Release: Williams Partners
1/15/10	Credit Analysis: The Laclede Group, Inc. and Laclede Gas Co.
1/15/10	Credit Analysis: Columbus Southern Power Co. and Ohio Power Co. (Subsidiaries of American Electric Power Co.)
1/15/10	Press Release: Star Gas
1/12/10	Press Release: Florida Power & Light and FPL Group
1/12/10	Press Release: Florida Power Corp.
1/11/10	Special Report: Global Power Monthly Summary — December 2009
1/5/10	Credit Analysis: NiSource Inc.
1/5/10	Credit Analysis: Northern Indiana Public Service Co. (Subsidiary of NiSource Inc.)

New Issuances

				Rating		
Date		Amount ($ Mil.)	Instrument	Issue Rating	Issuer Default Rating	Outlook/ Watch
1/21/10	Trans-Allegheny Interstate Line Company (TrAILCo.)	450	Senior Unsecured	BBB	BBB–	Stable
1/20/10	Energy Transfer Equity, L.P. (ETE)[a]	1,750	Senior Unsecured	BB	BB–	Stable
1/11/10	CMS Energy Corp.	300	Senior Unsecured	BB+	BB+	Stable
1/7/10	Tucson Electric Power[b]	130	Senior Unsecured	BB+	BB	Positive
1/7/10	Energy Future Holdings Corp.	500	Secured	B+	B	Negative

Initial Rating

		New Rating				
Date		Issuer Default Rating	Senior Secured Rating	Senior Unsecured Rating	Short Term Rating	Outlook/ Watch
1/14/10	Trans Allegheny Interstate Line Company	BBB–	—	BBB	—	Stable

Upgrades and Downgrades

		New Rating					Previous Rating				
Date	Issuer	Issuer Default Rating	Senior Secured Rating	Senior Unsecured Rating	Short-Term Rating	Outlook/ Watch	Issuer Default Rating	Senior Secured Rating	Senior Unsecured Rating	Short-Term Rating	Outlook/ Watch
1/25/10	Commonwealth Edison Company	BBB–	BBB+	BBB	F3	Stable	—	BB+	BBB	BBB–	B
1/25/10	ComEd Financing Trust III[c]	—	—	—	—	Stable	—	—	—	—	—

Change in Outlook and Watch

		New Rating					Previous Rating				
Date	Issuer	Issuer Default Rating	Senior Secured Rating	Senior Unsecured Rating	Short-Term Rating	Outlook/ Watch	Issuer Default Rating	Senior Secured Rating	Senior Unsecured Rating	Short-Term Rating	Outlook/ Watch
1/19/09	Williams Partners L.P. (WPZ)	BB	—	BB	—	RWP	—	BB	—	BB	—
1/19/10	Williams Partners Finance Corporation	BB	—	BB	—	RWP	—	BB	—	BB	—
1/12/10	Florida Power Corp.	A–	A+	A	F1	RWN	—	A–	A+	A	F1
1/12/10	FPL Group, Inc.	A	—	—	—	RWN	—	A	—	—	—
1/12/10	Florida Power & Light Company	A	AA–	A+	F1	RWN	—	A	AA–	A+	F1
1/12/10	FPL Group Capital Inc.	A	—	A	F1	RWN	—	A	—	A	F1
1/12/10	FPL Group Capital Trust I[d]	—	—	—	—	RWN	—	—	—	—	—

[a]Deferred. [b]The Industrial Development Authority of the County of Pima's (the Authority) $130 million industrial development revenue bonds (IDRBs), 2008 series B (Tucson Electric Power Co. [TEP] Project) due Sept. 1, 2029. [c]Preferred stock to 'BB+' from 'BB'. [d]Trust preferred stock 'A–', downgraded to 'BBB+' as per new hybrid criteria on Jan. 22, 2010.
Source: Fitch.

Global Power Ratings

(As of Jan. 31, 2010)

Ticker	Parent Name	Subsidiary Name	Issuer Default Rating	Senior Secured Rating	Senior Unsecured Rating	Short Term Rating	Outlook/ Watch	Primary Analyst
AES	AES Corporation		B+	BB+/RR1	BB/RR1	B	Stable	Lapson
		IPALCO Enterprises, Inc.	BBB–	BBB–	—	—	Stable	Lapson
		Indianapolis Power & Light Company	BBB–	BBB+	BBB	—	Stable	Lapson
AGL	AGL Resources, Inc.		A–	—	A–	F2	Stable	Pellecchia
		AGL Capital Corp.	A–	—	A–	F2	Stable	Pellecchia
		Atlanta Gas Light Co.	A–	—	A	—	Stable	Pellecchia
AYE	Allegheny Energy, Inc.		BBB–	—	BBB–	—	Stable	Lapson
		Allegheny Energy Supply Company	BBB–	BBB	BBB–	—	Stable	Lapson
		Allegheny Generating Company	BBB–	—	BBB–	—	Stable	Lapson
		Trans-Allegheny Interstate Line Company	BBB–	—	BBB	—	Stable	Lapson
		Monongahela Power Company	BBB–	BBB+	BBB–	—	Stable	Lapson
		Potomac Edison Company	BBB–	BBB+	—	—	Stable	Lapson
		West Penn Power Company	BBB–	BBB+	BBB–	—	Stable	Lapson
AEE	Ameren Corporation		BBB+	—	BBB+	F2	Stable	Hornick
		AmerenEnergy Generating Company	BBB+	—	BBB+	F2	Negative	Hornick
		Central Illinois Light Company	BBB	A–	BBB+	F3	Stable	Hornick
		Central Illinois Public Service Co.	BBB–	BBB+	BBB	F3	Stable	Hornick
		CILCORP, Inc.	BBB–	—	BBB–	F3	Stable	Hornick
		Illinois Power Company	BBB–	BBB+	BBB	F3	Stable	Hornick
		Union Electric Co.	BBB+	A	A–	F2	Stable	Hornick
AEP	American Electric Power Company		BBB	—	BBB	F2	Stable	Anderson
		AEP Texas Central Company	BBB	A–	BBB+	—	Negative	Anderson
		AEP Texas North Company	BBB+	A	A–	—	Stable	Anderson
		Appalachian Power Company	BBB–	—	BBB	—	Stable	Anderson
		Columbus Southern Power Company	BBB+	—	A–	F2	Stable	Anderson
		Indiana Michigan Power Company	BBB–	—	BBB	F2	Stable	Anderson
		Kentucky Power Company	BBB–	—	BBB	F2	Stable	Anderson
		Ohio Power Company	BBB	—	BBB+	F2	Stable	Anderson
		Public Service Company of Oklahoma	BBB	—	BBB+	—	Stable	Anderson
		Southwestern Electric Power Company	BBB	—	BBB+	—	Negative	Anderson
—	American Transmission Company		A	—	A+	F1	Stable	Omar
ATO	Atmos Energy Corporation		BBB	—	BBB+	F2	Stable	Pellecchia
AVA	Avista Corporation		BBB–	BBB+	BBB	F3	Stable	Smyth
		Avista Capital II	—	—	BBB[a]	—	Stable	Smyth
	Black Hills Corp.		BBB	—	BBB	F2	Stable	Caviness
		Black Hills Power, Inc.	BBB	A–	BBB+	F2	Stable	Caviness
	Boardwalk Pipelines, LLC		BBB	—	BBB	—	Stable	Molica
		Texas Gas Transmission, LLC	BBB+	—	BBB+	—	Stable	Molica
	Brookfield Renewable Power, Inc.		BBB–	—	BBB	—	Negative	Grabelsky
—	California Independent System Operator		A+	—	A+	—	Stable	Anderson
CNP	Centerpoint Energy Inc.		BBB–	—	BBB–	F3	Stable	Bonelli
		Centerpoint Energy Houston Electric, LLC	BBB	A–[b]	BBB+	F2	Stable	Bonelli
		Centerpoint Energy Resources Corp.	BBB	—	BBB	F2	Stable	Bonelli
CHG	Central Hudson Gas & Electric Corp		A–	—	A	F1	Stable	Schmidt
CMS	CMS Energy Corporation		BB+	BBB–	BB+	—	Stable	Anderson
		Consumers Energy Company	BBB–	BBB+	BBB	—	Stable	Anderson
ED	Consolidated Edison, Inc.		BBB+	—	BBB+	F2	Stable	Lapson
		Consolidated Edison Co. of New York	BBB+	—	A–	F2	Stable	Lapson
		Orange and Rockland Utilities, Inc.	A–	—	A	F2	Negative	Lapson
		Rockland Electric Co.	A–	—	—	—	Negative	Lapson
CEG	Constellation Energy Group, Inc.		BBB–	—	BBB–	F3	Stable	Lapson
		Baltimore Gas and Electric Company	BBB	A–	BBB+	F2	Stable	Lapson
D	Dominion Resources, Inc.		BBB+	—	BBB+	F2	Stable	Bonelli
		Virginia Electric and Power	BBB+	A	A–	F2	Stable	Bonelli
DPL	DPL Inc.		A–	—	A–	F1	Stable	Pellecchia
		Dayton Power & Light Company	A	AA–	—	F1	Stable	Pellecchia
DTE	DTE Energy Company		BBB	—	BBB	F2	Negative	Anderson
		Detroit Edison Company (DECo)	BBB	A–	—	F2	Stable	Anderson

[a]Trust preferred stock 'BBB–'. [b]Centerpoint Energy Houston Electric, LLC — General mortgage bonds rated 'A–'. [c]Trust preferred stock at 'CCC/RR6'. [d]Midwest Generation, LLC — Senior secured notes rated 'BB+'. [e]Guaranteed, non-guaranteed Senior Unsecured at 'CCC/RR6.' [f]Guaranteed, non-guaranteed Senior Unsecured at 'CCC/RR6'. [g]TXU Gas— Defeased. [h]Preferred stock 'BB+'. [i]Trust preferred stock 'BBB+'. [j]Nevada Power Company — Secured bank credit facility rated 'BBB–'. [k]Sierra Pacific Power Company — Senior secured bank credit facility rated 'BBB–'. [l]Mississippi Power Company — Refer to press release dated Aug. 24, 2005. RWP – Rating Watch Positive. RWN – Rating Watch Negative. RWE – Rating Watch Evolving. *Continued on next page.*
Source: Fitch.

FitchRatings
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Corporates

Global Power Ratings (Continued)

(As of Jan. 31, 2010)

Ticker	Parent Name	Subsidiary Name	Issuer Default Rating	Senior Secured Rating	Senior Unsecured Rating	Short Term Rating	Outlook/ Watch	Primary Analyst
DYN	Dynegy, Inc.		B–	—	—	—	Negative	Molica
		Dynegy Holdings, Inc.	B–	BB–/RR1	BRR3	—	Negative	Molica
		Dynegy Capital Trust I[c]	—	—	—	—	—	Molica
EIX	Edison International		BBB–	—	—	F3	Stable	Smyth
		Edison Mission Energy	BB–	—	BB–	B	RWN	Smyth
		Midwest Generation, LLC	BB	BBB–[d]	—	B	RWN	Smyth
		Mission Energy Holding Co.	BB–	BB–	—	—	Stable	Smyth
		Southern California Edison Company	A–	A+	A	F1	Stable	Smyth
	El Paso Corp.		BB+	BBB–	BB+	—	Stable	Molica
		Colorado Interstate Gas Co.	BBB–	—	BBB–	—	Stable	Molica
		El Paso Exploration & Production Co.	BB+	BB+	BB	—	Stable	Molica
		El Paso Natural Gas Co.	BBB–	—	BBB–	—	Stable	Molica
		Southern Natural Gas Co.	BBB–	—	BBB–	—	Stable	Molica
		Tennessee Gas Pipeline Co.	BBB–	—	BBB–	—	Stable	Molica
EDE	Empire District Electric Company		BBB–	BBB+	BBB	F2	Negative	Omar
EAS	Energy East Corporation		BBB+	—	A+	—	Stable	Schmidt
		Berkshire Gas Company	BBB+	A	A–	—	Stable	Schmidt
		Central Maine Power Company	BBB+	—	A–	F2	Stable	Schmidt
		Connecticut Natural Gas	BBB+	—	A–	—	Stable	Schmidt
		New York State Electric & Gas Corp	BBB	—	BBB+	F2	Negative	Schmidt
		Rochester Gas and Electric Corp	BBB–	BBB+	BBB	—	Stable	Schmidt
		Southern Connecticut Gas	BBB	A–	—	—	Negative	Schmidt
TXU	Energy Future Holdings Corp.		B	B+RR1	BRR4[e]	—	Negative	Bonelli
		Energy Future Intermediate Holding Company LLC	B	B+RR1			Negative	Bonelli
		Oncor Electric Delivery Company	BBB–	BBB	BBB–	F3	Stable	Bonelli
		Texas Competitive Electric Holdings	B	BB/RR1	B/RR4[f]	—	Negative	Bonelli
		TXU Gas Company	AAA	—	AAA[g]	—	Stable	Bonelli
		TXU US Holdings Company	B	—	CCC+/RR6	—	Stable	Bonelli
ETP	Energy Transfer Partners, L.P.		BBB–	—	BBB–	—	Stable	Pellecchia
ETE	Energy Transfer Equity, L.P.		BB–	BB	—	—	Stable	Pellecchia
—	Enterprise GP Holdings L.P.		BB–	BB	—	—	Stable	Caviness
EPD	Enterprise Products Operating, LLC.		BBB–	—	BBB–	—	Stable	Caviness
—	EQT Corporation		BBB+	—	BBB+	F2	Stable	Caviness
EXC	Exelon Corporation		BBB+	—	BBB+	F2	Stable	Hornick
		Commonwealth Edison Company	BBB–	BBB+	BBB	F3	Stable	Hornick
		ComEd Financing Trust III	—	—	—	—	Stable	Hornick
		Exelon Generation Company, LLC	BBB+	—	BBB+	F2	Stable	Hornick
		PECO Energy Company	BBB+	A	—	F2	Stable	Hornick
FE	FirstEnergy Corp.		BBB	—	BBB	—	Stable	Anderson
		Cleveland Electric Illuminating Co.	BB+	BBB	BBB–	—	Stable	Anderson
		FirstEnergy Solutions Corp. (FES)	BBB	BBB+	BBB	F2	Stable	Anderson
		Jersey Central Power & Light Co.	BBB	A–	BBB+	F2	Stable	Anderson
		Metropolitan Edison Company	BBB–	BBB+	BBB	F3	Stable	Anderson
		Ohio Edison Company	BBB–	BBB+	BBB	F2	Stable	Anderson
		Pennsylvania Electric Company	BBB–	BBB+	BBB	F3	Stable	Anderson
		Pennsylvania Power Company	BBB–	BBB+	BBB	F3	Stable	Anderson
		Toledo Edison Company	BB+	BBB	BBB–	—	Stable	Anderson
FPL	FPL Group, Inc.		A	—		—	RWN	Lapson
		Florida Power and Light	A	AA–	A+	F1	RWN	Lapson
		FPL Group Capital, Inc.	A	—	A	F1	RWN	Lapson
		FPL Group Capital Trust					RWN	Lapson
IDA	IDACORP, Inc.		BBB	—	—	F2	Negative	Smyth
		Idaho Power Company	BBB	A–	BBB+	F2	Negative	Smyth
KSE	KeySpan Corporation		A–	—	A–	—	Stable	Schmidt
		Brooklyn Union Gas Co.	A	—	A+	—	Stable	Schmidt
		KeySpan Gas East Corporation	A–	—	A	—	Stable	Schmidt
KMI	Kinder Morgan Inc.		BB+	BB+	—	—	Stable	Pellecchia
		NGPL PipeCo LLC	BBB–	—	BBB–	—	Stable	Pellecchia
KMP		Kinder Morgan Energy Partners, L.P.	BBB	—	BBB	F2	Stable	Pellecchia
		Midcontinent Express Pipeline LLC	BBB		BBB	F2	Stable	Caviness
REX		Rockies Express Pipeline LLC	BBB	—	BBB	F2	Stable	Pellecchia

[a]Trust preferred stock 'BBB–.'.[b]Centerpoint Energy Houston Electric, LLC — General mortgage bonds rated 'A–'. [c]Trust preferred stock at 'CCC/RR6'. [d]Midwest Generation, LLC — Senior secured notes rated 'BB+'. [e]Guaranteed, non-guaranteed Senior Unsecured at 'CCC/RR6.' [f]Guaranteed, non-guaranteed Senior Unsecured at 'CCC/RR6'. [g]TXU Gas— Defeased. [h]Preferred stock 'BB+'. [i]Trust preferred stock 'BBB+'. [j]Nevada Power Company — Secured bank credit facility rated 'BBB–'. [k]Sierra Pacific Power Company — Senior secured bank credit facility rated 'BBB–'. [l]Mississippi Power Company — Refer to press release dated Aug. 24, 2005. RWP – Rating Watch Positive. RWN – Rating Watch Negative. RWE – Rating Watch Evolving. *Continued on next page.*
Source: Fitch.

Global Power Ratings (Continued)

(As of Jan. 31, 2010)

Ticker	Parent Name	Subsidiary Name	Issuer Default Rating	Senior Secured Rating	Senior Unsecured Rating	Short Term Rating	Outlook/ Watch	Primary Analyst
LG	Laclede Group, Inc. (The)		A–	—	—	—	Stable	Omar
		Laclede Gas Company	A–	A+	—	F1	Stable	Omar
—	LOCAP		—	—	—	F1	Stable	Neama
—	LOOP LLC		A–	—	A–	F1	Stable	Neama
MDU	MDU Resources Group, Inc.		A–	A+	A	F2	Negative	Caviness
		Cascade Natural Gas Corporation	A–	—	A	F2	Negative	Caviness
		Centennial Energy Holdings, Inc.	A–	—	A–	F2	Negative	Caviness
	MidAmerican Energy Holdings Co.		BBB+	—	BBB+	F2	Stable	Anderson
		MidAmerican Energy Company	A–	—	A	F1	Stable	Anderson
		MidAmerican Funding LLC.	BBB+	A–	—	—	Stable	Anderson
		Kern River Funding Corp.	A–	—	A–	—	Stable	Anderson
		Northern Natural Gas Co.	A	—	A	—	Stable	Anderson
		PacifiCorp	BBB	A–	BBB+	F2	Stable	Anderson
MIR	Mirant Corporation		B+	—	—	—	Stable	Molica
		Mirant Americas Generation, LLC	B+	—	B/RR5	—	Stable	Molica
		Mirant Mid-Atlantic, LLC	B+	—	BB+RR1	—	Stable	Molica
		Mirant North America, LLC	B+	BB	BB–/RR1	—	Stable	Molica
MGC	Mountaineer Gas Company		BB–	—	BB	B	Stable	Omar
NFG	National Fuel Gas Company		A–	—	A–	F2	Stable	Pellecchia
GAS	NICOR Inc.		A	—	A	F1	Stable	Omar
		Nicor Gas Company	A	AA–	A+	F1	Stable	Omar
NI	NiSource Inc.		BBB–	—	BBB	—	Stable	Pellecchia
		NiSource Capital Markets, Inc.	BBB–	—	BBB–	—	Stable	Pellecchia
		NiSource Finance Corporation	BBB–	—	BBB–	F3	Stable	Pellecchia
		Northern Indiana Public Service Co.	BBB–	—	BBB	—	Stable	Pellecchia
NU	Northeast Utilities		BBB	—	BBB	—	Stable	Schmidt
		Connecticut Light and Power Co.	BBB	A–	BBB+	—	Stable	Schmidt
		Public Service Company of New Hampshire	BBB	BBB+	—	—	Stable	Schmidt
		Western Massachusetts Electric Co.	BBB	—	BBB+	—	Stable	Schmidt
NRG	NRG Energy, Inc.		B	BB/RR1	B+/RR3	—	RWE	Molica
NWEC	Northwestern Corporation		BBB–	BBB+	BBB	F3	Stable	Grabelsky
NST	NSTAR		A–	—	A	F1	Stable	Schmidt
		NSTAR Electric Co.	A+	—	AA–	F1+	Stable	Schmidt
		NSTAR Gas	A–	A	—	—	Stable	Schmidt
VLI	NuStar Energy LP		—	—	—	—	—	
		NuStar Logistics, L.P.	BBB–	—	BBB–	—	Stable	Caviness
		NPOP (Kaneb Pipe Line Operating Partnership, L.P.)	BBB–	—	BBB–	—	Stable	Caviness
SRP	NV Energy Inc.		BB–	—	BB–	—	Positive	Smyth
		Nevada Power Company d/b/a NV Energy	BB	BBB–[h]	BB	—	Positive	Smyth
		Sierra Pacific Power Company d/b/a NV Energy	BB	BBB–[i]	—	—	Positive	Smyth
OGE	OGE Energy Corp.		A	—	A	F1	Stable	Molica
		Enogex Inc.	BBB	—	BBB	—	Stable	Molica
		Oklahoma Gas and Electric Company	A+	—	AA–	F1	Stable	Molica
OTTR	Otter Tail Corporation		BBB–	—	BBB–	F3	Stable	Lapson
		Otter Tail Power	BBB	—	BBB+	F3	Stable	Lapson
PCG	PG&E Corp		—	—	—	—	—	Smyth
		Pacific Gas and Electric Company	A–	—	A	F1	Stable	Smyth
POM	PEPCO Holdings		BBB	—	BBB	F2	Negative	Schmidt
		Atlantic City Electric	BBB	A–	BBB+	F2	Stable	Schmidt
		Delmarva Power & Light	BBB+	A	A–	F2	Stable	Schmidt
		Potomac Electric Power Company	BBB+	A	A–	F2	Stable	Schmidt
PNW	Pinnacle West Capital Corporation		BBB–	—	BBB–	F3	Negative	Smyth
		Arizona Public Service Company	BBB–	—	BBB	F3	Stable	Smyth
PNM	PNM Resources		BB	—	BB	B	Stable	Smyth
		Public Service Company of New Mexico	BB	BBB–	BB+	B	Stable	Smyth
		Texas New Mexico Power Company	BB+	—	BBB–	B	Stable	Smyth
PPL	PPL Corporation		BBB	—	BBB	F2	Stable	Hornick
		PPL Capital Funding, Inc.	BBB	—	BBB	—	Stable	Hornick
		PPL Electric Utilities Corporation	BBB	A–	—	F2	Stable	Hornick
		PPL Energy Supply	BBB	—	BBB+	F2	Stable	Hornick

[a]Trust preferred stock 'BBB–.'.[b]Centerpoint Energy Houston Electric, LLC — General mortgage bonds rated 'A–'. [c]Trust preferred stock at 'CCC/RR6'. [d]Midwest Generation, LLC — Senior secured notes rated 'BB+'. [e]Guaranteed, non-guaranteed Senior Unsecured at 'CCC/RR6.' [f]Guaranteed, non-guaranteed Senior Unsecured at 'CCC/RR6'. [g]TXU Gas— Defeased. [h]Preferred stock 'BB+'. [i]Trust preferred stock 'BBB+'. [j]Nevada Power Company — Secured bank credit facility rated 'BBB–'. [k]Sierra Pacific Power Company — Senior secured bank credit facility rated 'BBB–'. [l]Mississippi Power Company — Refer to press release dated Aug. 24, 2005. RWP – Rating Watch Positive. RWN – Rating Watch Negative. RWE – Rating Watch Evolving. *Continued on next page.*
Source: Fitch.

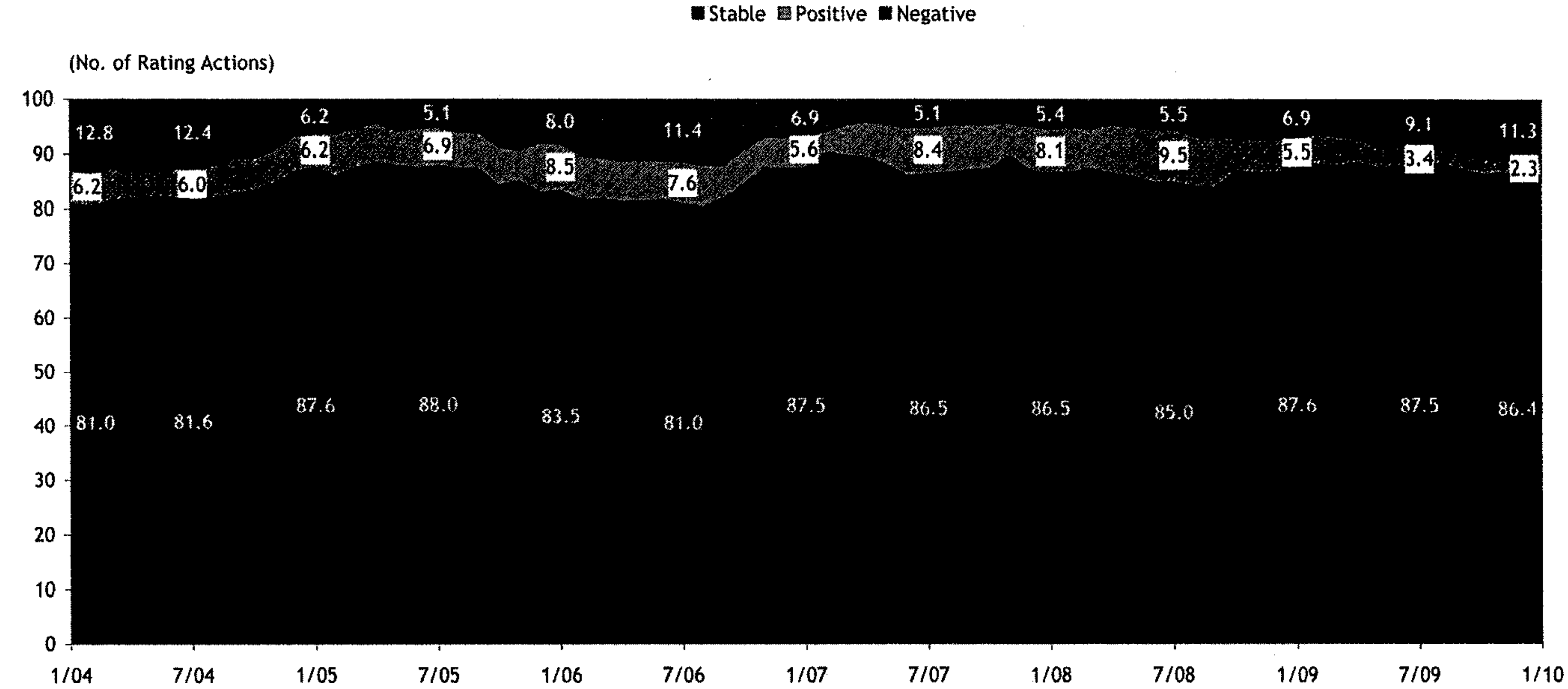
Global Power Ratings (Continued)

(As of Jan. 31, 2010)

Ticker	Parent Name	Subsidiary Name	Issuer Default Rating	Senior Secured Rating	Senior Unsecured Rating	Short Term Rating	Outlook/ Watch	Primary Analyst
PGN	Progress Energy, Inc		BBB	—	BBB	F2	Stable	Bonelli
		Carolina Power & Light Co.	A–	A+	A	F1	Stable	Bonelli
		Florida Power Corp.	A–	A+	A	F1	RWN	Bonelli
PEG	Public Service Enterprise Group Inc		BBB+	—	BBB+	F2	Stable	Hornick
		PSEG Energy Holdings, Inc.	BB+	—	BB		Stable	Hornick
		PSEG Power, LLC	BBB+	—	BBB+		Stable	Hornick
		Public Service Electric and Gas Co.	BBB+	A	—	F2	Stable	Hornick
RRI	Reliant Energy Inc		B	BB/RR1	B+/RR2	B	Negative	Molica
SCG	SCANA Corporation		BBB+	—	BBB+	F2	Stable	Schmidt
		Public Service Company of North Carolina	BBB+	—	A–	F2	Stable	Schmidt
		South Carolina Electric & Gas Co.	BBB+	A	A–	F2	Stable	Schmidt
		South Carolina Fuel Company	—	—	—	F2		Schmidt
SRE	Sempra Energy		A	—	A	F1	Stable	Smyth
		San Diego Gas & Electric Company	A+	AA	AA–	F1+	Stable	Smyth
		Southern California Gas Company	A+	AA	AA–	F1+	Stable	Smyth
		Pacific Enterprises	A	—	—	—	Stable	Smyth
SO	Southern Company		A	—	A	F1	Stable	Bonelli
		Alabama Power Company	A	—	A+	F1	Stable	Bonelli
		Georgia Power Company	A	—	A+	F1	Negative	Bonelli
		Gulf Power Company	A–	A+	A	F1	Stable	Bonelli
		Mississippi Power Company	A+	AAA[l]	AA–	F1+	Stable	Bonelli
		Southern Company Capital Funding	A	—	A	—	Stable	Bonelli
		Southern Power Company	BBB+	—	BBB+	F2	Stable	Bonelli
SUG	Southern Union Company		BBB–	BBB	BBB–	—	Stable	Caviness
		Panhandle Eastern Pipeline Co.	BBB–	—	BBB–	—	Stable	Caviness
SWX	Southwest Gas Corporation		BBB	—	BBB	F2	Stable	Molica
—	Southwest Power Pool		A	A+	A	F1	Stable	Smyth
SE	Spectra Energy Corp.		—	—	—	—	—	—
DPM		DCP Midstream LLC	BBB	—	BBB	F2	Stable	Caviness
		Spectra Energy Capital, LLC.	BBB	—	BBB	F2	Stable	Caviness
		Texas Eastern Transmission, LP	BBB+	—	BBB+	—	Stable	Caviness
SGU/SGH	Star Gas Partners L.P.		B	—	BB–/RR2	—	Stable	Neama
TE	TECO Energy, Inc.		BBB–	—	BBB–	—	Stable	Bonelli
		Tampa Electric Company	BBB	—	BBB+	F2	Stable	Bonelli
		TECO Finance, Inc.	BBB–	—	BBB–	—	Stable	Bonelli
TPP	TEPPCO Partners L.P.		BBB–	—	BBB–	—	Stable	Caviness
—	Tucson Electric Power Company		BB	BBB–	BB+	B	Positive	Smyth
UGI	UGI Corp.		—	—	—	—	—	Molica
UGIU		UGI Utilities, Inc.	A–	—	A	—	Stable	Molica
APU		AmeriGas Partners, L.P.	BB+	—	BB+	—	Stable	Molica
		AP Eagle Finance Corp.	BB+	—	BB+	—	Stable	Molica
WR	Westar Energy, Inc.		BBB–	BBB+	BBB	F3	Stable	Smyth
		Kansas Gas and Electric Company	BBB–	BBB+	—	F3	Stable	Smyth
WGL	WGL Holdings, Inc.		A+	—	A+	F1	Stable	Molica
		Washington Gas Light Company	A+	—	AA–	F1+	Stable	Molica
WMB	Williams Companies, Inc.		BBB–	—	BBB–	—	Stable	Pellecchia
		Northwest Pipeline Corporation	BBB	—	BBB	—	Stable	Pellecchia
		Transcontinental Gas Pipe Line Corp	BBB	—	BBB	—	Stable	Pellecchia
		Williams Partners, LP	BB	—	BB	—	RWP	Pellecchia
		Williams Partners Finance Corporation	BB		BB		RWP	Pellecchia
WEC	Wisconsin Energy Corporation		A–	—	A–	F2	Negative	Anderson
		Wisconsin Electric Power Company	A	—	A+	F1	Negative	Anderson
		Wisconsin Energy Capital Corp.	A–	—	A–	—	Negative	Anderson
		Wisconsin Gas Company, LLC	A	—	A+	F1	Stable	Anderson
XEL	Xcel Energy Inc.		BBB+	—	BBB+	F2	Stable	Anderson
		Northern States Power Company (MN)	A–	A+	A	F1	Stable	Anderson
		Northern States Power Company (WI)	A–	A+	A	F1	Stable	Anderson
		Public Service Company of Colorado	BBB+	A	A–	F2	Stable	Anderson

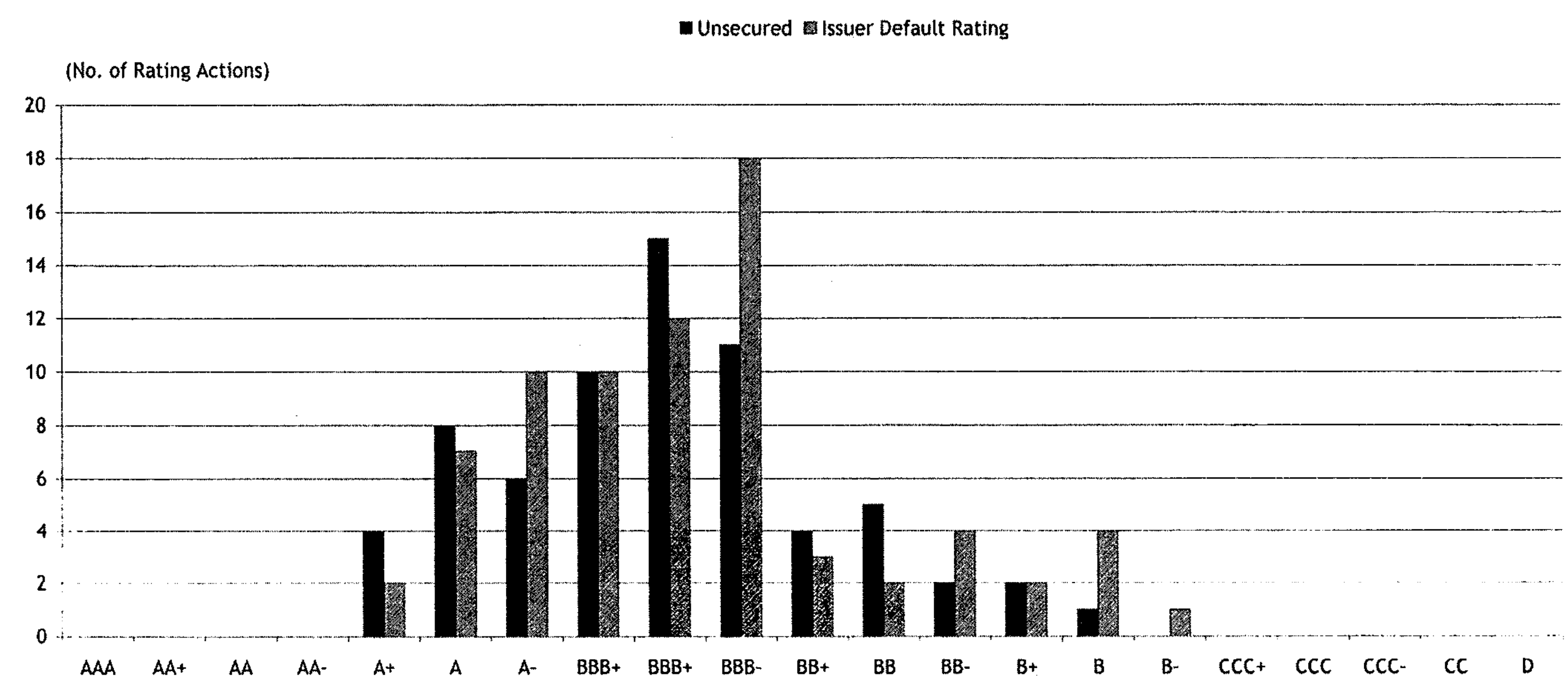
[a]Trust preferred stock 'BBB–.'.[b]Centerpoint Energy Houston Electric, LLC — General mortgage bonds rated 'A–'. [c]Trust preferred stock at 'CCC/RR6'. [d]Midwest Generation, LLC — Senior secured notes rated 'BB+'. [e]Guaranteed, non-guaranteed Senior Unsecured at 'CCC/RR6.' [f]Guaranteed, non-guaranteed Senior Unsecured at 'CCC/RR6.' [g]TXU Gas— Defeased. [h]Preferred stock 'BB+'. [i]Trust preferred stock 'BBB+'. [j]Nevada Power Company — Secured bank credit facility rated 'BBB–'. [k]Sierra Pacific Power Company — Senior secured bank credit facility rated 'BBB–'. [l]Mississippi Power Company — Refer to press release dated Aug. 24, 2005. RWP – Rating Watch Positive. RWN – Rating Watch Negative. RWE – Rating Watch Evolving.
Source: Fitch.

Historical Distribution of Ratings Outlooks
(As of Jan. 31, 2010)



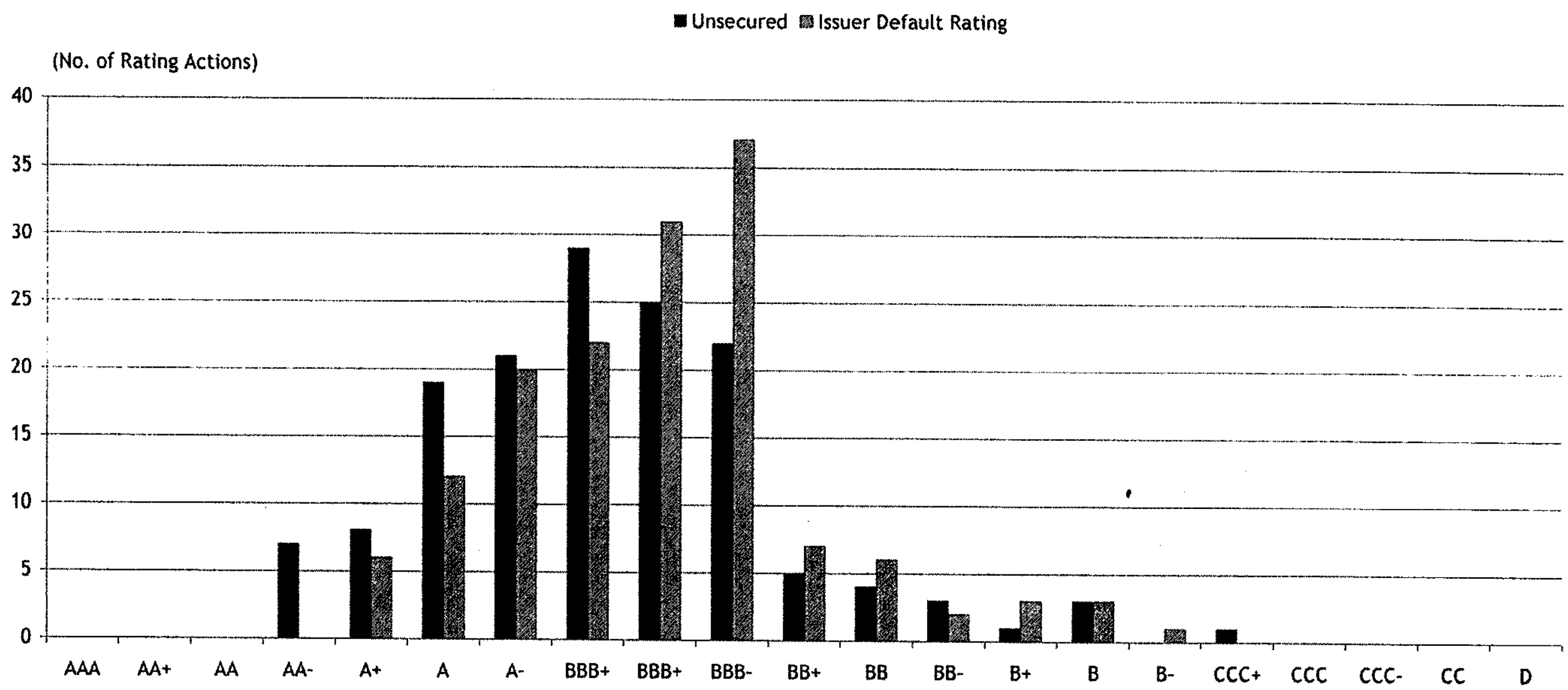
Source: Fitch.

Ratings Distribution of Corporate Parents
(As of Jan. 31, 2010)



Source: Fitch.

Ratings Distribution of Corporate Subsidiaries
(As of Jan. 31, 2010)



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Contact Information

Head of Global Power North America
Glen Grabelsky
Managing Director
+1 212 908-0577
glen.grabelsky@fitchratings.com

Ellen Lapson
Global Power Credit Policy
Managing Director
+1 212 908-0504
ellen.lapson@fitchratings.com

Team Leader
Robert Hornick
Senior Director
+1 212 908-0523
robert.hornick@fitchratings.com

Phil Smyth
Senior Director
+1 212 908-0531
philip.smyth@fitchratings.com

Roshan Bains
Director
+1 212 908-0211
roshan.bains@fitchratings.com

Shalini Mahajan
Director
+1 212 908-0351
shalini.mahajan@fitchratings.com

Philippe Beard
Associate Director
+1 212 908-0242
philippe.beard@fitchratings.com

Team Leader
Ralph Pellecchia
Senior Director
+1 212 908-0586
ralph.pellecchia@fitchratings.com

Bryan Caviness
Senior Director
+1 212 908-0172
bryan.caviness@fitchratings.com

Peter Molica
Director
+1 212 908-0288
peter.molica@fitchratings.com

Kevin Beicke
Associate Director
+1 212 908-9112
kevin.beicke@fitchratings.com

Team Leader
Sharon Bonelli
Managing Director
+1 212 908-0581
sharon.bonelli@fitchratings.com

Karen Anderson
Senior Director
+1 312 368-3165
karen.anderson@fitchratings.com

Jill Schmidt
Director
+1 212 908-0644
jill.schmidt@fitchratings.com

Karima Omar
Associate Director
+1 212 908-0592
karima.omar@fitchratings.com

Daniel Neama
Associate Director
+1 212 908-0561
daniel.neama@fitchratings.com

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May 4, 2004

Criteria | Corporates | Utilities:

Analyzing the Liquidity Adequacy of U.S. Energy Marketing and Trading Operations

Primary Credit Analyst:
Arleen Spangler, New York (1) 212-438-2098

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Analyzing the Liquidity Adequacy of U.S. Energy Marketing and Trading Operations

The turmoil experienced in U.S. power markets in the past three years has demonstrated that energy-trading operations are particularly vulnerable to large and sudden liquidity demands related to collateral calls. The unusually high demand for liquidity relates to the fact that energy-trading operations tend to buy and sell large volumes of highly volatile and illiquid energy products in the forward market that cannot be effectively cleared through collateral-clearing platforms or exchanges. The high degree of liquidity demand has had meaningful implications for the financial performance of many energy trading and marketing operations and, all too frequently, destabilized their credit profiles.

To address this risk, Standard & Poor's Ratings Services is establishing new liquidity adequacy guidelines for energy trading and marketing operations. The new guidelines focus on a company's liquidity under a stressed scenario. This scenario incorporates a negative credit event (such as a downgrade to below investment grade) that coincides with an adverse movement in commodity prices. Standard & Poor's believes that investment-grade companies should maintain enough liquidity to address a scenario in which there is a crisis of confidence in the company's financial condition and, at the same time, a 30% adverse movement in power and oil/gas prices. A shortfall from this guideline is just one factor in the overall ratings analysis. However, the degree and magnitude of such a shortfall could have negative ratings implications.

The stress tests and liquidity guidelines outlined in this article are not intended to reflect the full complexity of market dynamics at the time a credit or market event occurs. Nevertheless, Standard & Poor's believes it is appropriate to formulate benchmark measures and establish minimum guidelines to enhance analytics and expedite comparisons. To the extent that a company's trading portfolio has its own set of characteristics and liquidity requirements, that will need to be specifically addressed.

Standard & Poor's Introduces Liquidity Survey

In the coming weeks, Standard & Poor's will initiate a quarterly survey of all investor-owned electric and gas companies. The survey will request that companies estimate their liquidity requirements at a point in time each month. The survey's purpose is to assess the companies' potential liquidity risk, with a particular focus on liquidity demands on a trading and marketing operation related to collateral calls. The liquidity requirement of the trading and marketing business will be analyzed under three stress situations. First, Standard & Poor's will evaluate the liquidity requirements of a trading and marketing company that faces an adverse credit event, such as a downgrade to below investment grade. Second, Standard & Poor's will analyze the effect on liquidity needs resulting from an adverse price movement of power and oil/gas. Third, Standard & Poor's will analyze a scenario where both events occur simultaneously.

Using the survey data, Standard & Poor's will calculate two ratios, Credit Event Liquidity Adequacy (CELA) and Market and Credit Event Liquidity Adequacy (MCELA). These ratios are designed to capture the relationship between a company's overall liquidity and liquidity demand associated with a credit event and/or a market event. Standard & Poor's expects that these ratios will enhance the analysis and expedite analytical comparisons among companies.

Standard & Poor's generally expects investment-grade companies to maintain a MCELA ratio of at least 1.0x. These ratios, although important, do not substitute for a comprehensive consideration of the issuer's particular circumstances. The absolute size of the cushion or shortfall of liquidity is likely to be important when compared with their relationship to the company's entire liquidity position, such as financing needs related to working capital, capital expenditures, upcoming debt maturities, operating cash flow shortfalls and contingent obligations.

It is important to note that it is a common misperception that a company's liquidity requirements can be estimated from its Value-at-Risk (VaR) estimate. In fact, VaR generally holds very little predictive value for assessing liquidity risk. Collateral calls are made on open positions and hedged positions. VaR is a function of the size of the open positions only. Because energy companies' hedged positions often outnumber their open positions by 20 times or more, it is unlikely that VaR would be a meaningful indicator of liquidity requirements.

Measuring Potential Liquidity Needs

Standard & Poor's has determined that the major drivers of liquidity demands are an adverse credit event and market price movements. The credit event that Standard & Poor's will use for its stress scenario assumes that the company falls below investment grade and must post collateral to cover its entire negative MTM exposure and other liquidity calls. The market event that Standard & Poor's will use is a 30% adverse movement in power and oil/gas prices.

The CELA and MCELA ratios are designed too measure liquidity adequacy related to these concerns:

- The CELA formula is: primary liquidity/(negative MTM without price stress + other liquidity calls).
- The MCELA formula is: primary liquidity/(negative MTM with 30% price stress + other liquidity calls).

CELA is calculated by assuming that the company would have to post enough collateral to cover its entire negative MTM exposure. The negative MTM exposure calculation will reflect the terms of the collateral clause and mastering netting agreements. Other potential drain on liquidity due to the lack of access to the commercial paper market and rating triggers embedded in structured transaction will also be included in the denominator. Although not a part of ratio calculations, Standard & Poor's will consider the increase in working capital needs as counterparties shorten the payable collection period against a company with a deteriorating credit profile. The amounts calculated are measured against a company's primary sources of liquidity, which include unrestricted cash on hand and availability under credit facilities, although cash and letters of credit that have been posted to offset negative MTM exposure will be added back to available liquidity.

MCELA is performed exactly as CELA above, except the current MTM position is stressed with a 30% adverse price shock of energy commodities, e.g., power, oil, and natural gas.

Negative MTM and Collateral Exposure

Standard & Poor's focuses on a company's aggregate negative MTM contracts (or out-of-the-market contracts) because they tend to represent a company's most significant exposure to collateral calls. The negative MTM value of a contract is the amount of money that the company would in theory owe to its counterparty if the contract is terminated at the time of the valuation. The counterparty demands collateral to cover itself of the risk that it may not be able to collect the amount that it is owed in the event that the company files for bankruptcy and the contract is rejected.

A creditworthy company enjoys the benefit of not having to post collateral to cover its entire negative MTM exposure. However, as a company's credit quality declines, it has to post more and more collateral to reduce the negative MTM value that the counterparty is exposed to. The actual amount of collateral that must be posted varies according to rating levels and the language of the trading agreement.

Contract terms with a hard trigger tend to have very specific collateral posting requirements at specified credit rating levels (hard and soft trigger clauses are defined in Appendix A). When a company's rating falls below investment grade, the company generally must post enough collateral to cover the entire value of the negative MTM exposure.

Contract terms with a soft trigger tend to be vague about collateral posting requirements. Soft trigger collateral clauses generally require the company to provide "Adequate Assurance" (AA) in an event of a "Material Adverse Change" (MAC). Usually the meaning of AA and MAC are left to the interpretation of the parties involved. Standard & Poor's assumes that companies will have to post 100% of its negative MTM exposure for the purpose of calculating liquidity adequacy ratios. However, in analyzing a company's overall liquidity picture, Standard & Poor's will take into account the potential for lower liquidity demand associated with collateral clauses with soft triggers.

Effect of Netting on Negative MTM

Negative MTM exposures can be aggregated on a contract-by-contract basis, on a legal entity-by-legal entity basis, or on a counterparty-by-counterparty basis (see Appendix B for examples of aggregate negative MTM calculations). In its calculation of liquidity adequacy ratios, Standard & Poor's will assume that unless the parties have a netting agreement, negative MTM exposure will be aggregated on a contract-by-contract basis. Even though there are some concerns regarding the enforceability of netting mechanisms in bankruptcy, Standard & Poor's believes that netting mechanisms are an effective way for companies to reduce liquidity requirements because generally only a small percentage of a company's counterparties will go bankrupt. However, if a company has significant counterparty concentration or has a poor counterparty credit profile, Standard & Poor's places more emphasis on the unnetted exposure.

Effect of Market Stress on Negative MTM

The aggregate negative MTM exposure as explained above could rise if there are adverse market price movements. To account for such potential, Standard & Poor's measures a trading operation's aggregate negative MTM exposure by assuming market price movements under different scenarios. Standard & Poor's tests a total of eight scenarios. Each scenario involves a 30% change in the price of the commodity or commodities in the first 12 months and then 20% thereafter. The first four scenarios involve the increase and decrease of the power price assumption while holding natural oil/gas price constant and vice versa (i.e., changing natural oil/gas price while holding power price constant). The next four scenarios involve the increase and decrease of power and oil/gas prices in all possible permutations. The highest exposure calculated from the eight scenarios is used to calculate the MCELA. As an alternative measure, Standard & Poor's may request a company to calculate a break-even price shock that would measure how far market prices would have to change before it consumes all of the primary liquidity sources.

MCELA is designed to capture the potential exposure of a market event in combination with a credit event. However, the difference between MCELA and CELA can be interpreted as the stand-alone effect of a market event, which can occur independently of a credit event. For high-yield credits, the credit event has already occurred or is irrelevant, and the MCELA ratios would only provide an indication of liquidity adequacy due to a 30% market move.

Primary Liquidity and Secondary Liquidity

Standard & Poor's considers unrestricted cash on hand and unused credit facilities as primary sources of liquidity, and they are used as the basis for calculating MCELA and CELA ratios. The following sources of liquidity are considered to be secondary sources of liquidity:

- A company's free cash flow,
- Cash generated from selling inventory or receivables, and
- Uncommitted credit lines.

Secondary sources of liquidity, though less reliable, will also be incorporated as part of the liquidity analysis. Cash held as collateral from counterparties is not considered as a source of liquidity. Parent guarantees are considered a liquidity source if the trading and marketing operation is evaluated on a stand-alone basis. However, if the liquidity analysis is performed companywide (i.e., as a consolidated entity), as is usually the case, intracompany arrangements such as parent guarantees are not a meaningful source of liquidity.

Are the Scenarios Reasonable?

Standard & Poor's believe the stress scenarios outlined are reasonable scenarios for an investment-grade company to be able to withstand. The credit event considered assumes that the company falls below investment-grade and, as shown in chart 1, during the past three years, about 20% to 30% of investment-grade credits in the 'BBB' category in four related industrial sectors have fallen below investment-grade, while about 5% of 'A-' entities have fallen below investment grade. The market event used in Standard & Poor's downside scenario is a 30% adverse movement in power and oil/gas prices for the 12-month strip and 20% beyond this strip. Chart 2 shows that over the past six years, the annual price change of power and gas was greater than 30% about 50% of the time. Even when geographic diversification is considered, a price movement of 30% has not been uncommon.

Chart 1

Chart 1

Percentage of Fallen Angels Over 2000-2002 of Four Related Industrial Sectors

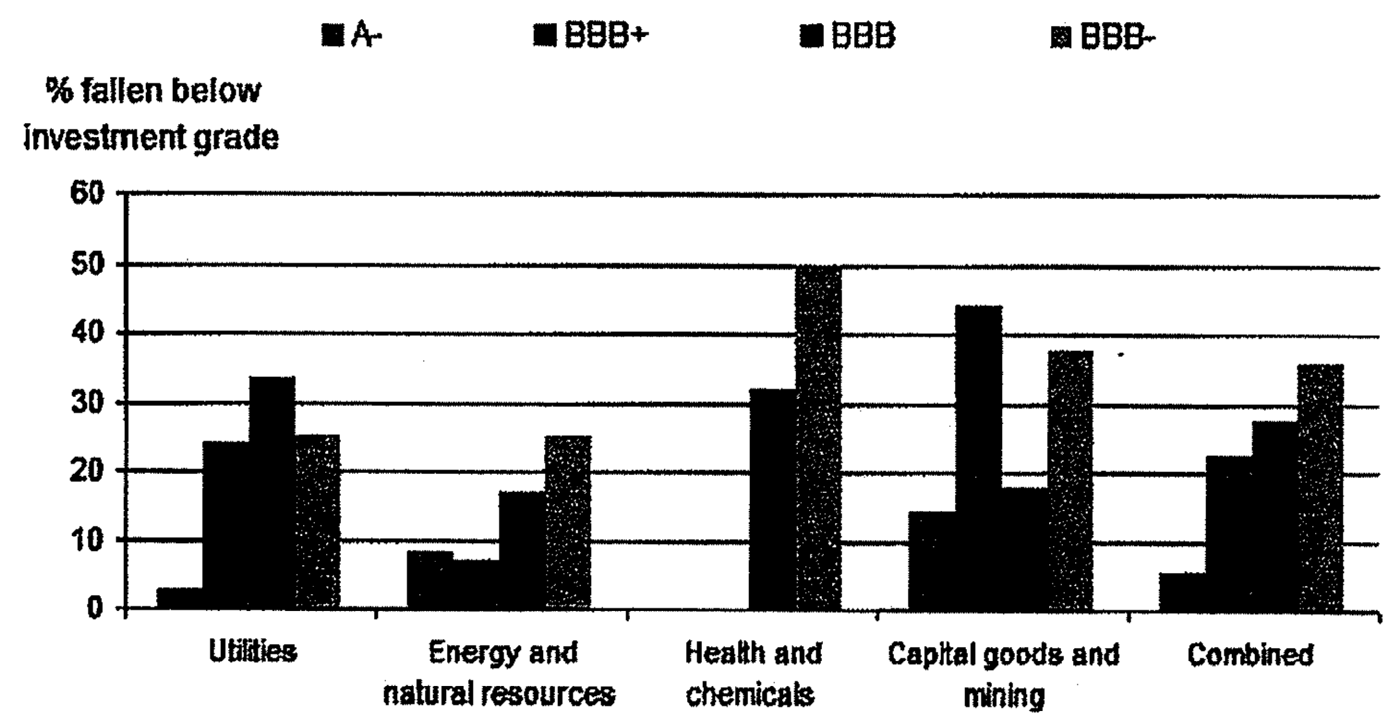
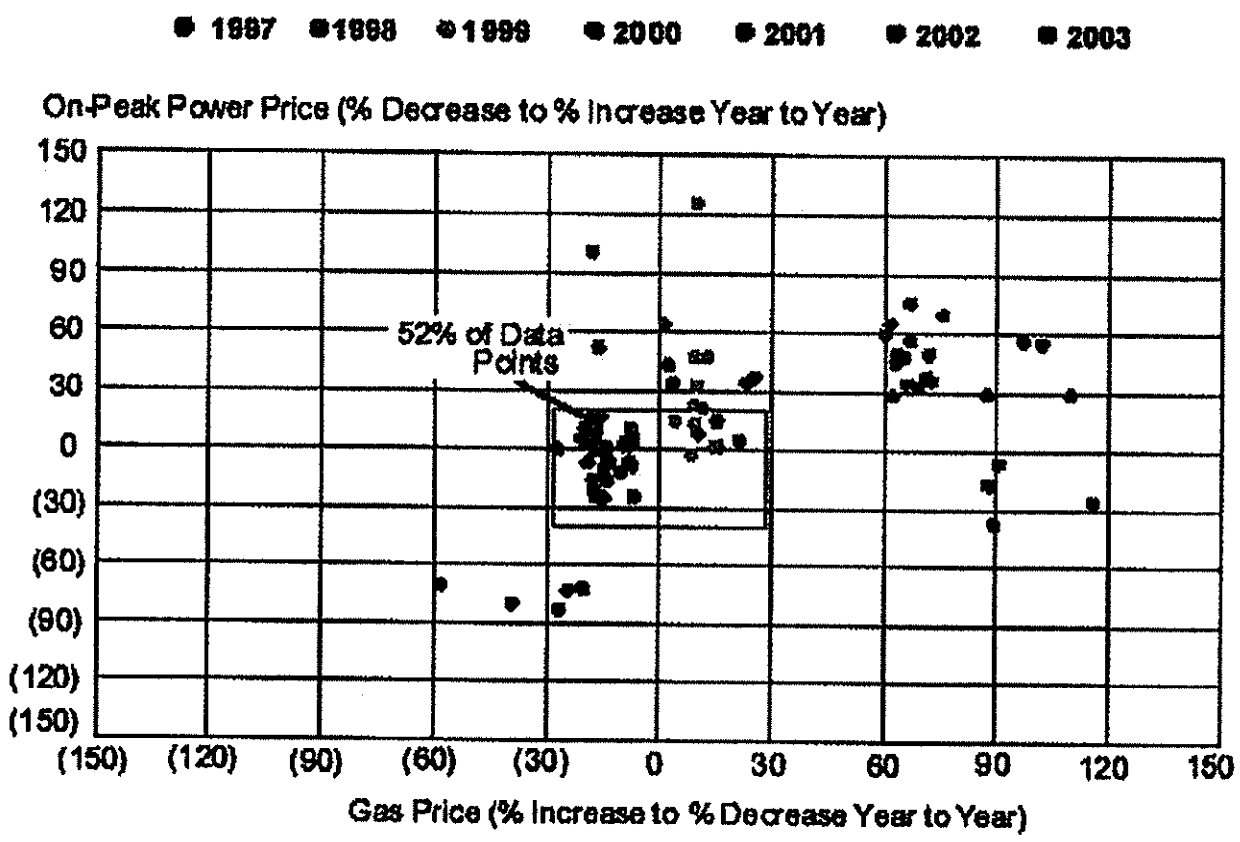


Chart 2

Year-to-Year Price Fluctuations



Note: Y-axis represents power prices. X-axis represents gas prices. Different points of the same color represent different regions. Some points are beyond the range of the graph.

Regarding the market event, some argue that average historical spot price variability should not be used to define the downside scenario percentage change in power and gas prices, but rather the historical variability of the forward price curves should be used.

Standard & Poor's agrees that optimally, historical variability of forward price curves is the most relevant. But there are not enough data points to determine historic volatility of the forward curve based on the very limited history of publicly available forward price curves (only a two-year history exists). Standard & Poor's would consider using forward price curves to define the downside scenario if provided with a richer history of forward price curves and if Standard & Poor's determines that history would act as a good predictor of future forward price variability.

For lack of a better substitute, Standard & Poor's uses historical variability of average annual spot prices as a proxy for historical variability of the 12-month forward strip. The perception that spot prices are highly volatile compared with forward prices reflects the extreme volatility of spot power when measured hourly, daily, or monthly. When averaged over an entire year, spot prices become a relatively reasonable proxy for forward price volatility as they eliminate price volatility created by time of usage within a day, weather variations from day to day, and seasonal variations from month to month.

Appendix A: Definitions

Hard triggers.

Hard-trigger collateral clauses generally have rating triggers that reduce the amount of uncovered negative MTM that a company is allowed to have with its counterparty. This allowance is called a credit threshold. As the company's rating falls, its credit threshold falls. Generally, when the company's rating falls below investment grade, the credit threshold is set to zero, at which point the company has to post enough collateral to cover the entire amount of its negative MTM exposure.

Negative MTM.

For each contract that a company holds, its current market value is either in-the-money, at-the-money, or out-of-the-money. In-the-money contracts have a positive MTM value, at-the-money contracts have a flat value (no gain or loss), and out-of-the-money contracts have a negative MTM value. The negative MTM represents a loss to the owner and conversely a gain to the contract counterparty. Negative MTM contracts are a source of liquidity risk to a company because the company may need to post collateral of cash or a letter of credit to its counterparty to reduce its negative MTM with that counterparty.

Soft triggers.

Unlike hard-trigger collateral clauses, soft-trigger collateral clauses do not establish credit thresholds that vary with a company's credit rating. Instead, the language usually requires that when a MAC event occurs, companies are required to post collateral that constitutes "adequate assurance". It is generally understood that a company's deterioration to below investment grade amounts to a MAC event. In other situations, the parties to the contract, or a court, will decide which events constitute a MAC and how much collateral is enough to provide for adequate assurance. Because of vague language, the soft-trigger collateral clauses can easily lead to disputes.

Appendix B: Example

The table below demonstrates how aggregate negative MTM changes according to different netting arrangements:

- The total negative MTM without the effect of netting is minus $90;
- If the netting agreement allows cross-commodity netting, the negative MTM would be aggregated on a legal entity-by-legal entity basis, for a total of minus $40; and

If netting agreement allow interaffiliate netting, the negative MTM would be aggregated on a counterparty-by-counterparty basis, for a total of minus $30.

Aggregate Negative MTM For Company XYZ

Counterparty	Legal entity	Master trading agreements	Current MTM by contract	Current MTM by legal entity	Current MTM by counterparty
Company A					
	Company A USA	EEI	$30		
		GISB	($20)		
				$10	
	Company A Canada	EEI	$20		
		GISB	($40)		
				($20)	

Aggregate Negative MTM For Company XYZ (cont.)

					($10)
Company B					
	Company B USA	WSPP	$10		
		ISDA	($30)		
				($20)	
					($20)
Total negative MTM by contract (no netting)			($90)		
Total negative MTM by legal entity (cross commodity netting)				($40)	
Total negative MTM by counterparty (cross affiliate netting)					($30)

MTM--Marked-to-market. EEI--Edison Electric Institute. GISB--Gas Industry Standards Board. WSPP--Western System Power Pool. ISDA--International Swaps and Derivatives Association.

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PSC DOCKET NO. 09-414/09-276T

STAFF RESPONSES TO DELMARVA POWER & LIGHT COMPANY DATA REQUESTS TO JOHN ANTONUK AND RANDALL VICKROY

MARCH 17, 2010

32. With respect to your testimony at page 38 lines 25-27: Explain in detail how the separate cash management system referenced in Recommendation 5 would differ from that which exists currently in PHI.

RESPONSE:

We believe that the cash management systems in place at PHI are generally sufficient; note that our recommendation was that such separate cash management systems must be *maintained.* Separate concentration accounts should be ensured. Please note as well our recommendation that there be affirmative commission requirements, as opposed to merely voluntary company action, even where such action is at present sufficient.

PSC DOCKET NO. 09-414/09-276T

STAFF RESPONSES TO DELMARVA POWER & LIGHT COMPANY DATA REQUESTS TO JOHN ANTONUK AND RANDALL VICKROY

MARCH 17, 2010

33. With respect to your testimony at page 39 lines 22-24: Explain in detail how the separate accounting books and records referenced in Recommendation 7 would differ from that which exists currently in PHI.

RESPONSE:

We believe that the accounting systems at PHI/DPL are generally sufficient for this recommendation; note that our recommendation was that such separate cash management systems must be *maintained*.. Please note as well our recommendation that there be affirmative commission requirements, as opposed to merely voluntary company action, even where such action is at present sufficient.

PSC DOCKET NO. 09-414/09-276T

STAFF RESPONSES TO DELMARVA POWER & LIGHT COMPANY DATA REQUESTS TO JOHN ANTONUK AND RANDALL VICKROY

MARCH 17, 2010

30. Referring to your testimony at page 38 lines 22-24: With respect to the bankruptcy-remote special purpose entity referenced in Recommendation 4, explain in detail the following:

    a. What a bankruptcy remote special purpose entity is,

    b. How would it be structured,

    c. How the structure described above would serve to make the entity bankruptcy remote

    d. Where in the current PHI corporate structure would this entity reside, and

    e. Who would manage this entity.

RESPONSE:

We have not undertaken an analysis of what would be required to meet the goal of this entity while conforming to applicable law. The goal is to provide separation and preclude a voluntary utility bankruptcy filing made at the direction of the parent. A document provided in response to PSC-AFF-28 ("Ring Fencing a Subsidiary", James Penrose, S&P, October 19, 1999) expresses the goal and the basic structural elements involved. Specific details of implementation would require PHI and DP&L to undertake legal analysis to provide the details of entity structure and operation. Note also that it would be appropriate to consider this approach in comparison to the other approach (a special preferred stock class) listed as an alternative in the testimony.

The costs, complexity, and any operating consequences of each alternative need to be evaluated in light of the degree of protection each may be expected to provide when properly constructed. Liberty recommends that DP&L undertake an examination of the alternatives, explain and compare them fully to the Commission, and propose an alternative for Commission review and approval.